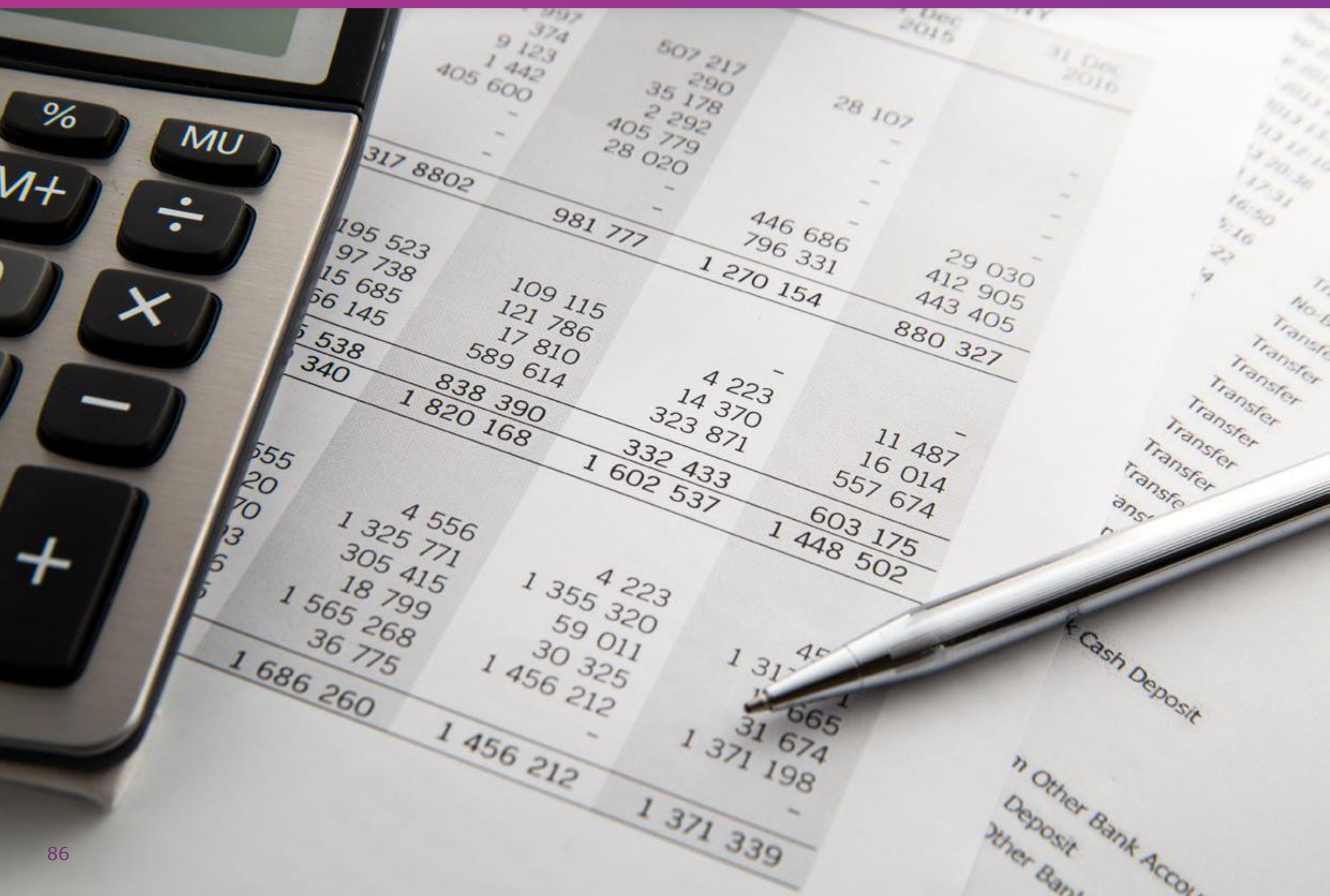
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1 602 537
11 487
16 014
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603 175
1 448 502
4 556
1 325 771
305 415
18 799
1 565 268
36 775
1 686 260
4 223
1 355 320
59 011
30 325
1 456 212
1 456 212
31 674
1 371 198
1 371 339
Cash Deposit

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2020

STATEMENT OF RESPONSIBILITY AND APPROVAL BY THE BOARD OF DIRECTORS

The Board of Directors is required in terms of the Co-operatives Amendment Act, No 14 of 2005, as amended, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Board to oversee that the annual financial statements fairly present the state of affairs of the Group and the Co-operative as at the end of the financial year. The Board of Directors needs to ensure that the results of its operations and cash flows for the period ended conforms to IFRS. External auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with IFRS and the requirements of the Co-operatives Amendment Act, No 14 of 2005, as amended. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The Board acknowledges that it is ultimately responsible for the system of internal financial control established by the Group and considers maintaining of a strong control environment as vitally important. To effectively meet its responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

Controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all forms of material risk across the Group. While operating risks cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are implemented and managed within predetermined parameters.

The Board is of the opinion, based on the information and explanations presented by management and other assurance providers, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board has reviewed the budgets and projected cash flow forecasts for the next 12 months for both the Group and the Co-operative. In light of this review and the current financial position, the Directors are satisfied that the Group and the Co-operative have, or have access to, adequate resources to continue in operational existence for the foreseeable future. Consequently, the going concern basis has been adopted in preparing the annual financial statements.

The external auditors, PwC, are responsible for independently auditing and reporting on the Group's and the Co-operative's annual financial statements and their report is presented on pages 96 to 97.

The annual financial statements set out on pages 98 to 192, were approved by the Board of Directors on 16 October 2020 and were signed on its behalf by:

Willem van Heerden
Chairman

Banie van Vollenhoven
Group Chief Executive Officer

The consolidated annual financial statements and the report of the external auditors for the financial year ended 31 August 2020 were considered and approved by the members at the AGM held on 30 October 2020.

Willem van Heerden
Chairman of the Annual General Meeting

CERTIFICATE BY THE CO-OPERATIVE SECRETARY

I declare that, to the best of my knowledge and belief, the Co-operative has lodged with the Registrar of Co-operatives all such returns as are required by the Co-operatives Amendment Act, No 6 of 2013, and that all such returns are true, correct and up to date.

Francois van Dyk
Co-operative Secretary

Private Bag X924
Pretoria
0001

Iemas Park
1249 Embankment Road
Zwartkop X7
Centurion

Tel: 012 674 7074
Fax: 086 520 6556

Email: thesecretary@iemas.co.za

REPORT OF THE AUDIT AND RISK COMMITTEE

for the year ended 31 August 2020

The Audit and Risk Committee was established with terms of reference from the Board of Directors of Iemas.

The Audit and Risk Committee Charter was reviewed, updated and approved by the Board in 2020.

COMMITTEE MEMBERSHIP

During 2020, the Audit and Risk Committee members were Quintus Vorster (Chairman), Prudence Lebina and Dashni Sinivasan, all of whom are Independent Non-executive Directors. Quintus Vorster was appointed as Chairman of the Audit and Risk Committee on 21 November 2019, following the appointment of Willem van Heerden, the previous Chairman of the Audit and Risk Committee, as Chairman of the Board. In terms of the Audit and Risk Committee Charter, the Chairman of the Board is not allowed to serve on the Audit and Risk Committee. The Group Chief Executive Officer, Banie van Vollenhoven, the Chief Financial Officer, Tom O'Connell, and the Head of Internal Audit, Sydney Maluleka, are permanent invitees to the meetings. The meeting attendance of members is detailed on page 65 of this annual report.

DUTIES ASSIGNED BY THE BOARD

The Audit and Risk Committee, as a sub-committee of the Board of Directors:

- Regularly reports to the Board on its statutory duties and duties assigned to it by the Board, and makes appropriate recommendations;
- Ensures that the Board is aware of matters which may have a significant impact on the financial position or affairs of Iemas; and
- Reports material weaknesses in internal financial controls that have resulted in actual material financial loss, fraud or material errors to the Board. Weaknesses are considered material when evaluated individually or in combination with other weaknesses.

The duties of the Committee, other than as detailed throughout the report, principally include:

- Overseeing the integrity of internal control, financial reporting, the annual financial statements, internal audit, the finance function, external audit, risk management and compliance with legislation and regulations;
- Reviewing a documented assessment, prepared by management, of the going concern status of Iemas, including key assumptions made by management in reaching their conclusions;
- Reviewing significant accounting and reporting issues, including recent professional and regulatory pronouncements, with an understanding of their impact on the annual financial statements; and
- Considering, in conjunction with the internal and external auditors, any cases of fraud and illegal acts, as well as deficiencies in internal financial controls or other similar issues related to financial reporting.

COMMITTEE PERFORMANCE DURING THE REPORTING PERIOD

The Committee has met periodically to consider and to act upon its statutory duties and functions and the Board confirms that the Committee has, during the reporting period, performed the duties mandated to it by the Board.

AUDIT

External audit

- The Committee nominated PwC for appointment as the independent auditors to perform the 2020 audit. The appointment was approved by members at the AGM on 31 October 2019.
- The Committee has satisfied itself, through enquiry that the auditors of Iemas are independent as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided by the auditors that internal governance processes within the audit firm support and demonstrate the claim to independence.
- The Committee, Group Chief Executive Officer and Chief Financial Officer, agreed to the engagement letter, terms, nature and scope of the audit function and audit plan for the 2020 financial year. The budgeted fee was considered appropriate for the work that could reasonably have been foreseen at that time. The final fee will be agreed on completion of the audit.
- There is a formal policy that governs the process whereby the auditor is considered for non-audit services and each engagement letter for such work is reviewed and approved as governed by the policy.
- With regard to the appropriateness of the re-appointment of PwC and the designated audit partner, Louwrens van Velden, the Committee has assessed information provided by PwC and has evaluated the external auditor's performance during the 2020 audit. The Committee, having satisfied itself of the suitability of the external auditors, has again nominated PwC as external auditor, and Louwrens van Velden of as the designated audit partner, for the 2021 reporting period. A resolution to this effect will be presented to members at the AGM to be held on 30 October 2020.

Internal audit

- The internal audit function operates within defined terms of reference in accordance with the Internal Audit Charter.
- The Head of Internal Audit reports to the Group Chief Executive Officer on day-to-day activities and functionally to the Chairman of the Audit and Risk Committee.
- The internal audit plan is reviewed and adjusted on a continuous basis to ensure effectiveness and is based on the relevant area's degree of inherent risk.
- In addition to scheduled Committee meetings, the Chairman of the Audit and Risk Committee meets with the Head of Internal Audit on an *ad hoc* basis should there be a material matter that requires his attention.
- The Head of Internal Audit has unlimited access to directors, the Chairman of the Board, the Audit and Risk Committee, the Group Chief Executive Officer and the Executive Committee.
- Internal Audit provides management and the Board, through the Audit and Risk Committee, with an independent, objective consulting and assurance service that reviews matters relating to control, risk management and corporate governance.
- Internal Audit, in consultation with management, compliance and the combined assurance forum, prepares a three-year Internal Audit Plan that is submitted to the Audit and Risk Committee for approval. The plan is reviewed annually, based on the annual corporate risk assessment and the scope of additional work needed to deliver on the overall plan.
- Iemas appointed an external, independent service provider to assist with the internal audit processes and a co-sourcing model has been applied to Iemas' Internal Audit function.
- During the year, the Committee received regular reports from Internal Audit.
- The Committee is satisfied that the Head of Internal Audit is independent, that Iemas' internal controls are in line with best practice, and that Internal Audit has met its responsibilities for the year in respect of its Charter.

Internal control

- The Group maintains systems of internal control, which include financial, operational and compliance controls which have been in place for the year under review and up to the date of the approval of the annual financial statements.
- The Audit and Risk Committee and the directors are not aware of, and there is no known material breakdown in the functioning of the internal financial controls that has occurred during the reporting period to render the control environment ineffective.

REPORTING

Evaluation of the Chief Financial Officer, finance function and financial reporting

The Audit and Risk Committee confirms that it has satisfied itself of the appropriateness of the expertise and experience of the Chief Financial Officer, Tom O'Connell.

- The Committee has considered, and has satisfied itself, of the appropriateness of the expertise in the finance function, the adequacy of resources for the finance function and the experience of the senior management members of the finance function.
- The Committee has established that Iemas has appropriate financial reporting procedures in place and that those procedures are operating and operated satisfactorily during the reporting period.

Annual financial statements and accounting policies

The Audit and Risk Committee has reviewed the accounting policies and the annual financial statements and is satisfied that they are appropriate and comply with IFRS. There have been no changes in the accounting policies.

- The Audit and Risk Committee fulfilled its mandate and recommended the annual financial statements for the year ended 31 August 2020 to the Board for approval.
- The Board approved the annual financial statements on pages 98 to 192 on 16 October 2020 and recommended the annual financial statements to be tabled at the AGM for approval.

Integrated Annual Report reporting process

The Committee oversaw the annual financial reporting process and, in particular, the Committee:

- Regarded major factors and risks that may impact on the integrity of the annual report, including factors that may predispose management to present a misleading picture;
- Considered significant judgements and reporting decisions made, as well as any evidence that brings into question previously published information and forward-looking statements or information;
- Reviewed the annual financial statements;
- Reviewed the disclosure of sustainability issues in the Integrated Annual Report to ensure that it is reliable and does not conflict with the financial information; and
- Recommended the annual report to the Board who approves it and recommends it to the members at the AGM for final approval.

REPORT OF THE AUDIT AND RISK COMMITTEE Continued

RISK

Risk management

- The responsibilities of the Audit and Risk Committee included:
  - Ensuring that risk management assessments were performed on a continuous basis;
  - Ensuring that compliance formed an integral part of the risk management process;
  - Ensuring that management considered and implemented appropriate risk responses; and
  - Expressing the Audit and Risk Committee's formal opinion to the Board on the effectiveness of the system and process of risk management.
- Disclosure in respect of the risk management framework and key risks identified, together with mitigating strategies, are disclosed on pages 49 to 55 of the integrated annual report.

Fraud prevention

- Reported information regarding fraud or suspected incidences of fraud is investigated by Internal Audit, who reports material findings to the Audit and Risk Committee. All cases of fraud are reported to the South African Police Service.
- Given the number of transactions that are processed on a daily basis, Iemas is experiencing relatively low levels of fraud. The number of fraud cases during the reporting period was 8 (2019: 12), involving losses of R358 382 (2019: R302 428), either to Iemas or its members.
- Management has implemented the required measures to detect most of the fraudulent transactions and extensive communication was done to warn members of those transactions.

Whistle-blowing

- In addition to normal internal reporting and escalation processes, Iemas secured the services of a new external, objective service provider to administer an anonymous and independent fraud and ethics hotline.
- All reported information regarding fraud or suspected incidences of fraud are investigated by Internal Audit, who reports material findings to the Audit and Risk Committee.

ASSURANCE

Combined assurance

- A formal Combined Assurance Framework and Charter were approved by the Audit and Risk Committee to provide the Committee with an opportunity to monitor the alignment of all assurance providers and eliminate multiple approaches to risk assessment and reporting.
- The Audit and Risk Committee is satisfied that Iemas has optimised the assurance coverage obtained from management and internal and external assurance providers in accordance with the Combined Assurance Model.

COMPLIANCE

Legal and regulatory compliance

- Based on the reports received throughout the year from the compliance department, the Committee concluded that management has implemented appropriate processes for complying with regulations and legislation impacting on the Group and implemented corrective measures, where required.
- Information pertaining to the regulatory environment is disclosed on page 70 of this report.

ANNUAL FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

Following the review by the Committee of the accounting policies and annual financial statements of Iemas for the year ended 31 August 2020, the Committee is of the view that, in all material aspects, it complies with the relevant provisions of the Co-operatives Act, No 6 of 2013 and IFRS and fairly presents the financial position at that date and the results of its operations and cash flows for the reporting period.

Having achieved its objectives for the reporting period, the Committee recommended the consolidated and separate annual financial statements and Integrated Annual Report for the year ended 31 August 2020 for approval to the Board on 16 October 2020.

APPROVAL

The Audit and Risk Committee fulfilled its mandate during the reporting period and accordingly the annual financial statements have been approved for recommendation to the Board.

The Board has subsequently approved the annual financial statements on pages 98 to 192 on 16 October 2020 and recommended the annual financial statements to be tabled at the AGM for approval.

The Board of Directors of Iemas approved the Report of the Audit and Risk Committee on 16 October 2020.

Signed for and on behalf of the Audit and Risk Committee.

Quintus Vorster
Chairman of the Audit and Risk Committee

DIRECTORS' REPORT

The Board of Directors of Iemas takes pleasure in presenting their report, which forms part of the audited consolidated and separate financial statements for the year ended 31 August 2020. The annual financial statements set out the financial position, results of operations and cash flows of Iemas for the year ended 30 August 2020

GROUP RESULTS SUMMARY

	2020 R'000	2019 R'000	% Change
Statement of Financial Position			
Total assets	**5 497 790**	5 640 342	(2,5)
Total liabilities	**3 727 843**	3 929 669	(5,1)
Statement of Comprehensive Income			
Interest income	**661 671**	696 106	(4,9)
Net interest income after impairments of advances	**269 227**	310 962	(13,4)
Profit before income tax	**72 127**	117 486	(38,6)
Income tax	**12 336**	24 281	(49,2)
Total comprehensive income for the year	**59 274**	93 688	(36,7)
Group rewards allocation to members of the Co-operative	**85 793**	109 901	(21,9)

REVIEW OF FINANCIAL RESULTS

Concerted efforts to improve performance continued, rendering results below budget due to the impact of the Covid-19 pandemic. Profit for the year decreased by R33,4m (2019: decrease of R9,8m) to R59,8m (2019: R93,2m). The total member rewards for 2020, including rewards allocated and interest accrued on the members' deferred bonus payment funds, amounted to R85,8m (2019: R109,9m).

Net advances decreased by 2,4% (2019: increase of 6,4%) to R5 239,6m (2019: R5 368,9m). The loan impairment expense (bad debts plus provisions less recoveries) increased by 56,6% (2019: 14,6%) to R137,8m (2019: R88,0m).

The impairment provision increased by R85,0m (2019: R13,0m), which represents 6,4% (2019: 4,1%) of the total advances, excluding pension-backed housing advances, for which no provision is made as these advances are covered by a pledge of an equal amount of members' pension fund credit.

For the year under review, capital and reserves increased by 3,5% (2019: 5,4%) to R1 769,9m (2019: R1 710,7m) while members' funds increased to R863,4m (2019: R848,3m).

SPECIAL RESOLUTIONS

The Co-operative's constitution was amended by the members at the AGM held 31 October 2019. These amendments have been necessitated by the proclamation of the Co-operatives Amendment Act, No 6 of 2013 and the Regulations for Co-operatives, as well as to align the Constitution to Iemas' strategy.

SECRETARY

Iemas' secretary is Francois van Dyk and is not a member of the Board of Directors. He therefore has an arm's-length relationship with the Board.

DIRECTORS' EMOLUMENTS

The Board approved that Iemas is not required to disclose the remuneration of each director and prescribed officers separately. Disclosure in terms of IFRS is set out in notes 23 and 31 of the annual financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No material contracts involving directors' interests were entered into during the year under review.

DIRECTORS

Details regarding movements of directors during the period 1 September 2019 to 31 August 2020 are tabled below:

Member Designation	Designation	Date of appointment
Anton Buthelezi	Independent Non-executive Director	31 October 2018
Len de Villiers	Independent Non-executive Director	31 October 2014
Prudence Lebina	Independent Non-executive Director	31 October 2016
Tom O'Connell	Chief Financial Officer	2 October 1995
Retha Piater	Independent Non-executive Director	31 July 2014
Vusi Sampula	Independent Non-executive Director	31 October 2014
Dashni Sinivasan	Independent Non-executive Director	31 October 2017
Willem van Heerden^	Chairman of the Board	6 December 2014
Quintus Vorster	Independent Non-executive Director	12 April 2017

^Appointed as Chairman of the Board at the AGM on 21 November 2019

EVENTS AFTER THE REPORTING DATE

The Directors are not aware of any material events which occurred between the reporting date and the date of publication of the Integrated Annual Report.

AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee are appointed by the Board at the first Board meeting after the AGM for a one-year term of office.

AUDITORS

The auditors, PwC, have indicated their willingness to continue in office for the ensuing year.

The Audit and Risk Committee has satisfied itself of the independence of the auditors and a recommendation to re-appoint them will be proposed at the AGM scheduled to take place on 30 October 2020.

INDEPENDENT AUDITORS' REPORT

To the Members of Iemas Financial Services Co-operative Limited

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Iemas Financial Services Co-operative Limited (the Co-operative) and its subsidiaries (together the Group) as at 31 August 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Co-operatives Act of South Africa.

WHAT WE HAVE AUDITED

Iemas Financial Services (Co-operative) Limited's consolidated and separate financial statements set out on pages 98 to 192 comprise:

- The consolidated and separate statements of financial position as at 31 August 2020;
- The consolidated and separate statements of comprehensive income for the year then ended;
- The consolidated and separate statements of changes in equity for the year then ended;
- The consolidated and separate statements of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).*

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Integrated Annual Report". The other information does not include the consolidated or the separate financial statements and our auditor's report thereon. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon. In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Co-operatives Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Co-operative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the Group and/or the Co-operative or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Co-operative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of section 47 (1)(c) of the Co-Operatives Act, 2005 we report that, based on our audit, nothing has come to our attention that causes us to believe that the assets and facilities of the Co-operative are not being properly managed and the operations of the Co-operative are not being conducted in accordance with co-operative principles.

Further, in accordance with our responsibility in terms of Regulation 31(1)(a) published in accordance with section 95 of the Co-operatives Act, 2005 (Act No. 14 of 2005) as amended by the Co-operatives Amendment Act, 2013 (Act No.6 of 2013), we report that a certificate by the Board as required by Regulation 31(1)(a) was submitted by the Co-operative.

PRICEWATERHOUSE COOPERS INC.

PricewaterhouseCoopers Inc.

Director: Louwrens van Velden
Registered Auditor

Johannesburg
16 October 2020

STATEMENT OF FINANCIAL POSITION

at 31 August

	Note	Group 2020 R'000	Group 2019 R'000	Co-operative 2020 R'000	Co-operative 2019 R'000
ASSETS					
Non-current assets					
Property and equipment	2	**41 797**	42 266	**40 361**	40 881
Right-of-use assets	3	**14 207**	–	**14 207**	–
Intangible assets	4	**66 517**	52 344	**57 343**	51 892
Investments in subsidiaries	5	**–**	–	**313**	313
Investments in insurance contracts	6	**155 273**	145 963	**155 273**	145 963
Deferred income tax	7	**65 509**	53 102	**60 273**	48 217
Advances receivable	8	**3 899 800**	4 029 502	**3 899 800**	4 029 502
Other non-current receivables	9	**–**	–	**131 800**	131 800
Investment securities	10	**2 518**	3 035	**2 000**	2 000
		4 245 621	4 326 212	**4 361 370**	4 450 568
Current assets					
Advances receivable	8	**1 047 451**	1 131 062	**999 618**	1 086 357
Cash and cash equivalents	11	**187 779**	170 216	**42 843**	25 017
Trade and other assets	12	**13 056**	10 772	**105 960**	110 153
Income tax receivable	21	**3 883**	2 080	**3 187**	–
		1 252 169	1 314 130	**1 151 608**	1 221 527
TOTAL ASSETS		**5 497 790**	5 640 342	**5 512 978**	5 672 095
EQUITY AND LIABILITIES					
Equity attributable to members of the Co-operative					
Share capital	13	**–**	–	**–**	–
Other reserves	14	**241 884**	242 401	**241 366**	241 366
Retained reserves		**1 528 063**	1 468 272	**1 482 237**	1 429 013
		1 769 947	1 710 673	**1 723 603**	1 670 379
Non-current liabilities					
Members' funds	15	**863 373**	848 335	**863 373**	848 335
Borrowings	17	**1 129 447**	1 577 638	**1 271 552**	1 712 245
Lease liability	3	**8 209**	–	**8 209**	–
Other provisions	18	**6 197**	–	**6 197**	–
		2 007 226	2 425 973	**2 149 331**	2 560 580
Current liabilities					
Borrowings	17	**1 521 612**	1 298 167	**1 504 969**	1 294 583
Lease liability	3	**6 857**	–	**6 857**	–
Trade and other liabilities	19	**176 065**	184 467	**113 874**	126 156
Cash co-operative rewards payable	16	**14 344**	18 163	**14 344**	18 163
Income tax payable	21	**1 739**	2 899	**–**	2 234
		1 720 617	1 503 696	**1 640 044**	1 441 136
TOTAL EQUITY AND LIABILITIES		**5 497 790**	5 640 342	**5 512 978**	5 672 095

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August

	Note	Group 2020 R'000	Group 2019 R'000	Co-operative 2020 R'000	Co-operative 2019 R'000
Interest income		**661 671**	696 106	**667 646**	703 966
Interest expenditure	20	**(217 134)**	(249 701)	**(229 388)**	(266 728)
Interest credited to members' funds	34	**(37 495)**	(47 412)	**(37 495)**	(47 412)
Net interest income before impairment losses		**407 042**	398 993	**400 763**	389 826
Impairment of advances receivable	22	**(137 815)**	(88 031)	**(137 815)**	(88 031)
Net interest income after impairment losses		**269 227**	310 962	**262 948**	301 795
Premium income	6	**101 251**	94 815	**101 251**	94 815
Fee and commission income	23	**150 865**	128 935	**74 439**	74 130
Other operating income	24	**16 154**	16 479	**35 759**	109 061
Income from operations		**537 497**	551 191	**474 397**	579 801
Operating expenditure	25	**(423 817)**	(377 687)	**(377 962)**	(348 512)
Profit before co-operative rewards to members		**113 680**	173 504	**96 435**	231 289
Co-operative rewards to members	34	**(41 553)**	(56 018)	**(41 553)**	(56 018)
Profit before income tax		**72 127**	117 486	**54 882**	175 271
Income tax	27	**(12 336)**	(24 281)	**(1 658)**	(14 424)
Profit for the year		**59 791**	93 205	**53 224**	160 847
Other comprehensive (expense)/income for the year		**(517)**	483	**–**	–
Items that will not be classified to profit and loss					
Net (losses)/gains on investments in equity instruments designated at FVOCI		**(517)**	483	**–**	–
Total comprehensive income for the year		**59 274**	93 688	**53 224**	160 847
Total comprehensive income attributable to:					
– Members of the Co-operative		**59 274**	93 688	**53 224**	160 847

FVOCI – financial assets at fair value through other comprehensive income

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August

	Note	Share capital R'000	Other reserves R'000	Retained reserves R'000	Capital and reserves R'000
GROUP					
Balance at 1 September 2018		–	241 918	1 381 147	1 623 065
Impact of initial application of IFRS 9 at 1 September 2018		–	–	(6 080)	(6 080)
Restated balance at 1 September 2018		–	241 918	1 375 067	1 616 985
Profit for the year		–	–	93 205	93 205
Other comprehensive income for the year	14	–	483	–	483
Balance at 31 August 2019		–	242 401	1 468 272	1 710 673
Balance at 1 September 2019		**–**	**242 401**	**1 468 272**	**1 710 673**
Profit for the year		**–**	**–**	**59 791**	**59 791**
Other comprehensive expense for the year	14	**–**	**(517)**	**–**	**(517)**
Balance at 31 August 2020		**–**	**241 884**	**1 528 063**	**1 769 947**
CO-OPERATIVE					
Balance at 1 September 2018		–	241 366	1 274 246	1 515 612
Impact of initial application of IFRS 9 at 1 September 2018		–	–	(6 080)	(6 080)
Restated balance at 1 September 2018		–	241 366	1 268 166	1 509 532
Profit for the year		–	–	160 847	160 847
Balance at 31 August 2019		–	241 366	1 429 013	1 670 379
Balance at 1 September 2019		**–**	**241 366**	**1 429 013**	**1 670 379**
Profit for the year		**–**	**–**	**53 224**	**53 224**
Balance at 31 August 2020		**–**	**241 366**	**1 482 237**	**1 723 603**

STATEMENT OF CASH FLOWS

for the year ended 31 August

	Note	Group		Co-operative	
		2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash utilised by operations	28	**(361 313)**	(766 134)	**(309 734)**	(760 937)
Interest received (excluding interest receivable)	28	**674 728**	691 233	**680 280**	695 600
Interest paid (excluding accrued interest)	28	**(217 645)**	(249 416)	**(227 297)**	(266 377)
Premium income	28	**101 251**	94 815	**101 251**	94 815
Fee and commission income	28	**150 865**	128 935	**74 207**	73 789
Other income	28	**16 154**	16 479	**13 759**	14 061
Co-operative rewards paid to members	29	**(14 946)**	(15 431)	**(14 946)**	(15 431)
Disbursements to members	15	**(37 638)**	(45 508)	**(37 638)**	(45 508)
Income tax paid	21	**(27 706)**	(25 847)	**(19 135)**	(15 701)
Net cash flow generated from/(utilised by) operating activities		**283 750**	(170 874)	**260 747**	(225 689)
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to property and equipment	2	**(4 561)**	(6 886)	**(4 501)**	(5 888)
Disposals of property and equipment		**6**	25	**6**	25
Additions to intangible assets	4	**(11 354)**	(16 533)	**(11 088)**	(16 533)
Increase in investments in insurance contracts	6	**(9 310)**	(1 460)	**(9 310)**	(1 460)
Increase in investment securities	10	**–**	(2 000)	**–**	(2 000)
Dividend received	24	**–**	–	**22 000**	95 000
Net cash flow (utilised by)/generated from investing activities		**(25 219)**	(26 854)	**(2 893)**	69 144
CASH FLOW FROM FINANCING ACTIVITIES					
(Decrease)/increase in borrowings	28	**(42 811)**	181 800	**(230 810)**	174 088
Increase in notes	28	**–**	199 112	**–**	–
Decrease in notes	28	**(188 939)**	(200 930)	**–**	–
Payments of principal on leases		**(7 630)**	–	**(7 630)**	–
Payments of interest on leases		**(1 588)**	–	**(1 588)**	–
Net cash flow (utilised by)/generated from financing activities		**(240 968)**	179 982	**(240 028)**	174 088
Net increase/(decrease) in cash and cash equivalents		**17 563**	(17 746)	**17 826**	17 543
Cash and cash equivalents at beginning of the year		**170 216**	187 962	**25 017**	7 474
Cash and cash equivalents at end of the year	11	**187 779**	170 216	**42 843**	25 017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 August 2020

1. ACCOUNTING POLICIES

1.1 Introduction

The principal accounting policies applied in the preparation of the annual financial statements and consolidated annual financial statements of Iemas Financial Services (Co-operative) Limited (Iemas) are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. References to "the Group" in these accounting policies refer to the annual financial statements and consolidated financial statements.

1.1.1 Basis of preparation

The annual financial statements and consolidated financial statements of Iemas for the year 2020 ended have been prepared in accordance with International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretations Committee (IFRIC) interpretations as applicable in South Africa. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). These financial statements have been prepared under the historical cost convention, except for certain assets and liabilities measured at fair value and investments in insurance contracts (measured as per the accounting policy).

The financial statements are prepared on the going-concern basis.

1.1.2 Standards, amendments and interpretations which became effective in the 2020 financial year

The following standards, amendments and interpretations which became effective in the 2020 financial year have been adopted for the first time for the financial period beginning on or after 1 September 2019 and have an impact on the Group's operations.

- IFRS 9 (Amendment), 'Financial Instruments' (effective from 1 January 2019). The narrow-scope amendment covers two issues:
  - The amendment allows companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income (FVOCI) if a specified condition is met, instead of at fair value through profit or loss (FVPL). It is likely to have the biggest impact on banks and other financial services entities.
  - The amendment clarifies how to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 and will affect all kinds of entities that have renegotiated borrowings.
- IFRS 16, 'Leases' (effective from 1 January 2019). This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off-balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, the guidance on the definition of a lease, as well as the guidance on the combination and separation of contracts, has been updated. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. For detail on the 'right-of-use asset' and lease liability raised, refer to note 3.

1. ACCOUNTING POLICIES continued

1.1 Introduction continued

1.1.2 Standards, amendments and interpretations which became effective in the 2020 financial year continued

- IFRIC 23, 'Uncertainty over income tax treatments' (effective from 1 January 2019). IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The interpretation provides specific guidance in several areas where previously IAS 12 was silent. The interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management assessed the existing models against the specific guidance in the interpretation and considered the impact on income tax accounting.

The following standards, amendments and interpretations which became effective in the 2020 financial year are mandatory for the Group's accounting periods beginning on or after 1 September 2019. Although these standards, amendments and interpretations are mandatory, they are not relevant for the current and prior financial year.

- *IAS 19 (Amendment), 'Employee benefits' – on plan amendment, curtailment or settlement. (effective from 1 January 2019).*
- *IAS 28 (Amendment), 'Investments in associates and joint ventures' – long-term interests in associates and joint ventures. (effective from 1 January 2019).*

  There are a number of minor amendments and improvements published in December 2017. These amendments are listed below:

  - *IFRS 3 (Amendment), 'Business combination' (effective from 1 January 2019).*
  - *IFRS 11 (Amendment), 'Joint arrangements' (effective from 1 January 2019).*
  - *IAS 12 (Amendment), 'Income taxes' (effective from 1 January 2019).*
  - *IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2019).*

1.1.3 Standards, amendments and interpretations not yet effective in the 2020 financial year

Standards, interpretations and amendments to published standards that are not yet effective and possibly relevant for the Group's operations

New standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 September 2020 or later periods. Of those identified as possibly being relevant to the Group's operations, the following have not been early adopted by the Group. Except for the standards specifically addressed below the impact of the remaining future standards are still being assessed.

- *IFRS 17, 'Insurance contracts' (effective from 1 January 2021).* The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

  Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.1 Introduction continued

1.1.3 Standards, amendments and interpretations not yet effective in the 2020 financial year continued

this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur, but over the remaining life of the contract. Management is of the opinion that standard will impact insurance contracts currently recognised in terms of IFRS 4. Management is still in the process of establishing the impact of this standard on current insurance contracts.

- IAS 1 (Amendment), 'Presentation of financial statements' and IAS 8 (Amendment), 'Accounting policies, changes in accounting estimates and errors' on the definition of material (effective from 1 January 2020). These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:
  - Use a consistent definition of materiality through IFRSs and the conceptual framework for financial reporting;
  - Clarify the explanation of the definition of material; and
  - Incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

Standards, interpretations and amendments to published standards that are not yet effective and not relevant for the Group’s operations:

The following new standards, amendments and interpretations to standards are mandatory for accounting periods beginning on or after 1 September 2020 or later periods, but are not relevant to the Group’s operations:

- *IFRS 3 (Amendment), 'Business combinations’ (effective from 1 January 2020).*
- *IFRS 9 (Amendment), 'Financial Instruments' (effective from 1 January 2020) relating to hedge accounting.*

1.2 Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Management believes that the underlying assumptions are appropriate and the Group's financial statements therefore present the financial position and results fairly. The area involving a degree of judgement or complexity, or area where assumptions and estimates are significant to the consolidated financial statements is the impairment of advances (refer to notes 8, 22 and 36).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1. ACCOUNTING POLICIES continued

1.2 Critical accounting estimates and assumptions continued

The Group makes estimates and assumptions regarding the future. The resulting accounting estimates will, by definition, seldom reflect the related actual results. The estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is the impairment of advances that is detailed below.

Measurement of the expected credit losses (ECL) allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 35 and 36, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL (including assessment of probability of default and loss given default;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

1.3 Consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. Investment in subsidiaries are accounted for at cost in terms of IAS 27 in the Co-operative's standalone financial statements.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements.

Common control transactions

Common control transactions are business combinations in which the combining entities are ultimately controlled by the same party both before and after the business combination, and control is not transitory. The consideration transferred for an acquisition of a subsidiary in a common control transaction is measured at the Group's carrying value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the acquisition date. The Group’s accounting policy for the acquiring entity would be to account for the transaction at book values as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquired proportionate share of the net assets acquired in common control transactions, will be allocated to the common control reserve in equity of the acquiring entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.4 Property and equipment

Property and equipment, excluding land, is stated at historical cost less accumulated depreciation and impairment. Land is stated at cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in the statement of comprehensive income as incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Office furniture and equipment	10 years
Computer equipment	4 years
Motor vehicles	5 years

No depreciation is calculated on buildings where the residual amount exceeds the carrying amount.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. For the determination of the recoverable amount refer to accounting policy note 1.6.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are included in the statement of comprehensive income as part of profit before co-operative rewards to members.

1.5 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment.

Computer software

Costs associated with developing or maintaining computer software programs are recognised in the statement of comprehensive income as incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and has a profitable benefit exceeding the cost beyond one year, are capitalised as an intangible asset.

Expenditure that enhances and extends the benefits of the computer software programs beyond their original specifications and lives is capitalised as a capital improvement and is added to the original cost of the software. Computer software development costs which are recognised as assets, are amortised using the straight-line method over the useful lives. Amortisation periods are determined based on the pace at which the technology develops and the estimated timeframe of it becoming obsolete.

Amortisation is calculated as follows:

Loan system	10 years
Card technology and administration	3 to 5 years
Other	7 years

Direct costs include the software development employee costs and an appropriate portion of relevant overheads levied by external parties.

Computer software comprises of the Iemas computer systems which have been developed in-house as well as off-the-shelf software, some of which have undergone customisation.

1. ACCOUNTING POLICIES continued

1.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or which are still under development are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment is reversed only to the extent that the asset's carrying amount doesn't exceed the carrying amount that would have been determined had no impairment been recognised.

1.7 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.8 Financial instruments

Financial instruments carried on the statement of financial position include all assets and liabilities, however exclude property and equipment, right-of-use assets, lease liabilities, intangible assets, investments in subsidiaries, investments in insurance contracts, deferred tax and income tax payable/receivable. The Group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.1 Measurement methods

Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Initial recognition and measurement

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVPL are expensed in profit or loss.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition the entity recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

1.8.2 Financial assets

1.8.2.1 Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Amortised cost
- FVOCI; or
- FVPL

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.2 Financial assets continued

1.8.2.1 Classification and subsequent measurement continued

The classification and subsequent measurement of financial assets depend on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent 'solely payments of principal and interest').

Business model assessment

The business model reflects how the Group manages the financial assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be measured at FVPL.

1.8.2.2 Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans. The Group classifies its debt instruments into the amortised cost measurement category.

Amortised cost - Financial assets are classified within this measurement category if they are held for the collection of contractual cash flows, where those cash flows represent SPPI, and that are not designated at FVPL. These financial assets are subsequently measured at amortised cost where interest income from these financial assets is included in 'Interest income' in the statement of comprehensive income using the effective interest rate method. The carrying amount of these assets are adjusted by the expected credit loss recognised. The Group's financial assets classified in this category comprise of advances, other non-current receivables, trade and other assets and cash and cash equivalents in the statement of financial position (refer note 8, 9, 11 and 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.2 Financial assets continued

1.8.2.2 Debt instruments continued

Financial assets classified within the amortised cost measurement category

- *Originated advances*

  Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down, are categorised as advances originated by the Group. These are measured at amortised cost, which is defined as the fair value at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Loans and advances are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets.

  Loans and advances are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Included in advances are securitised assets sold to an issuer who funded the purchase by issuing notes to investors and drawing down on a subordinated loan provided by Iemas. Due to the nature of the credit enhancements provided, Iemas retained substantially all the risks and rewards of ownership and as a result the securitised assets were not derecognised (refer note 8 and 36).

- *Other non-current receivables*

  Other non-current receivables are disclosed in non-current assets in the statement of financial position and consist of investments in asset-backed notes issued by Torque Securitisation (RF) Limited.

- *Trade and other assets*

  Trade and other assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade and other assets are disclosed in current assets in the statement of financial position.

- *Cash and cash equivalents*

  In the statement of cash flows, cash and cash equivalents constitute cash on hand and deposits held at call with original maturities of three months or less. Bank overdrafts are included under current liabilities in the statement of financial position, where applicable.

- *Restricted cash*

  Cash which is subject to restrictions for its utilisation is disclosed separately at carrying value.

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.2 Financial assets continued

1.8.2.3 Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. The Group subsequently measures all equity instruments at FVPL, except where management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Realised returns on such investments, continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established. The Group's financial assets classified as equity instruments designated at FVOCI comprise of investment securities in the statement of financial position (refer note 10).

1.8.2.4 Expected credit losses on financial assets

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost and FVOCI. The Group recognises a credit impairment loss for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 requires entities to recognise ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12-month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL).

The Group has elected to apply IFRS 9's simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables.

More detail is provided in section 1.2 on critical accounting estimates and assumptions and in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.3 Financial liabilities

1.8.3.1 Classification and subsequent measurement

Financial liabilities consist of borrowings (excluding lease liabilities) and trade and other payables.

Financial liabilities are subsequently measured at amortised cost. Interest expense is recognised as interest expenditure in the statement of comprehensive income. Financial liabilities are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

1.8.4 Derecognition of financial assets and liabilities

1.8.4.1 Derecognition of financial assets

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either the Group transfers substantially all the risks and rewards of ownership, or the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

1.8.4.2 Derecognition of financial liabilities

The Group derecognises a financial liability (or part of the liability) from its statement of financial position, when and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

1.8.5 Modification of financial assets and financial liabilities

1.8.5.1 Modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of advances to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.5 Modification of financial assets and financial liabilities continued

1.8.5.1 Modification of financial assets continued

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' financial asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Difference in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows or the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

1.8.5.2 Modification of financial liabilities

Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

1.8.6 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.9 Members' funds and co-operative rewards to members

Rewards (co-operative and insurance) to members are calculated on the aggregate value of discount-bearing turnover per product relevant to each individual member and are recognised once it has been approved by the Board of Directors.

Depending on the member's product portfolio a portion of the co-operative rewards and all insurance rewards are paid in cash to the members during November of each year and are accrued at year-end. The cash portion of co-operative rewards is included under current liabilities in the statement of financial position. Insurance rewards are included as part of trade and other liabilities.

The remainder of co-operative rewards, that is not immediately payable, is allocated into a members' fund, the deferred bonus payment fund. The members' funds are disclosed under non-current liabilities in the statement of financial position.

Interest on the members' funds is calculated bi-annually before the current year's distribution of co-operative rewards is taken into account. Where funds were withdrawn by members during the relevant six month period, or appropriated by Iemas during the relevant six month period, no interest is calculated or declared.

The Group adjusts the amount recognised for minor rule applications after the statement of financial position date. These adjustments are disclosed as under- or overprovisions in the statement of comprehensive income.

1.10 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risk specific to the liability. The increase of the provision due to the passage of time is recognised as an interest expense.

1.11 Share capital

In terms of the Co-operatives Amendment Act, No. 6 of 2013 and Iemas' constitution, membership of the Co-operative does not require members to take up shares in the Co-operative.

1.12 Investment in insurance contracts

Insurance contracts are defined as contracts containing significant insurance risk. Significant insurance risk arises if an insured event could cause an insurer to pay significantly more benefits than envisaged at the inception of the contract. Such contracts remain designated as insurance contracts until all rights and obligations are extinguished or expire.

The Co-operative has entered into cell captive arrangements that are ring-fenced insurance businesses established to serve the credit life insurance needs of certain classes of members, via selected short-term insurers. The member is responsible for paying the premium and cedes the policy, underwritten by the insurers, as security on a loan. The results of the insurance business are determined in accordance with the shareholders' agreements. The cell captives therefore effectively represent separate classes of shares that offer the Co-operative restricted participation in the results of the insurance business placed with the licensed insurers.

1. ACCOUNTING POLICIES continued

1.12 Investment in insurance contracts continued

The cell captive arrangement transfers the significant insurance risk (of the policies issued to members by the cell captive insurer) from the cell captive insurer to the Co-operative by requiring the Co-operative to maintain the solvency of the cell captives. The cell captive arrangement therefore meets the definition of an insurance contract in IFRS 4 'Insurance contracts'. A portion of the cell captives' insurance premiums are received in conjunction with the members' loan instalments which constitutes a 'deposit component'. A 'deposit component' is defined as a contractual component that is not accounted for as a derivative under IFRS 9, and would be in the scope of IFRS 9 'Financial instruments: Recognition and measurement' if it was a separate component. The loan instalments are therefore unbundled from the insurance contract and measured in accordance with IFRS 9. The remaining insurance contract is accounted for in accordance with the accounting policy on insurance contracts as set out below.

The results of the insurance activities are presented on a net basis in the non-current section of the statement of financial position as either a net receivable (investment in insurance contracts) or net payable (liability from insurance contracts). Movements during the year, which are included in the net returns of the investment in insurance contracts comprise the following:

- Premiums written relate to business written during the period on the credit life risk of vehicle-, pension backed-, personal- and maxi-loan advances with the purpose of covering any credit life claims on these advances;
- Claims incurred comprise claims that are paid in the year, prior year claim adjustments and movements in the outstanding claim accruals for example the accrual for claims incurred but not yet reported; and
- Movements in outstanding claims relate to the costs of settling all claims arising from events that have occurred up to the reporting date;

The underwriting activities are determined on an annual basis whereby the earned premiums are recognised as income and the incurred cost of claims, commission and related expenses are recognised as expenses. These underwriting activities are conducted through the financial service providers Guardrisk Insurance Company and Bryte Insurance Company, on commercial terms and conditions at market prices. Both these companies are licensed insurance companies.

1.13 Leases

IFRS 16 was adopted by the Group on 1 September 2019, and replaces IAS 17. The Group adopted the 'modified retrospective approach' included in IFRS 16 which doesn't require a full retrospective application, i.e. comparative information wasn't restated.

1.13.1 Leases under IFRS 16 (2020)

The Group is the lessee

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group.

The right-of-use assets are presented separately in the statement of financial position. Lease liabilities are disclosed separately as current and non-current liabilities in the statement of financial position.

At the commencement date, lease liabilities are measured at an amount equal to the present value of fixed payments for the underlying right-of-use assets during the lease term. The lease payments are discounted using the prime interest rate.

Lease payments are allocated between the lease liability and interest expenditure. The interest expenditure is recognised in the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.13 Leases continued

1.13.1 Leases under IFRS 16 (2020) continued

Right-of-use assets are initially recognised at the present value of lease payments and subsequently stated at cost. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as operating expenditure in the statement of financial position. Short-term leases are leases with a lease term of 12 months or less.

1.13.2 Leases under IAS 17 (2019)

The Group is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessors, are classified as operating leases. Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line method over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payments made to the lessor by way of a penalty, is recognised in the statement of comprehensive income during the period in which such termination takes place.

Leases of property, vehicles and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease’s commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

1.14 Employee benefits

Pension obligations

The Group has various pension schemes in accordance with the local conditions and practices. All these schemes are classified as defined contribution plans and are generally funded through payments to the insurance companies or trustee-administered funds as determined by the periodic actuarial calculations. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods. Contributions are recognised on a monthly basis in the statement of comprehensive income as part of staff costs.

Leave benefits

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is raised for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

1.15 Revenue recognition

Group income earned is recognised on the following basis, unless collectability is in doubt:

1.15.1 Net interest income

Interest income (including the unwinding of capitalised initiation fees) and interest expenditure are calculated on the time proportion basis using the effective interest rate method which is amended in the case of negotiations with members and impairment. Interest income and interest expenditure are separately presented on the face of the

1. ACCOUNTING POLICIES continued

1.15 Revenue recognition continued

1.15.1 Net interest income continued

statement of comprehensive income. Effective interest is calculated on loans and advances which are classified at amortised cost. Interest expenditure are calculated on financial liabilities held at amortised cost.

Impact of IFRS 9 ECL on interest recognition

IFRS 9 requires that interest income is calculated on financial assets by multiplying the effective interest rate by the gross carrying amount of such assets except for financial assets that have subsequently become credit-impaired (or stage 3) for which interest income is calculated by applying the effective interest rate to their amortised cost, that is, the gross carrying value less the ECL allowance.

1.15.2 Fee and commission income

Under IFRS 15, Revenue from Contracts with Customers, entities are required to recognise revenue in a manner which depicts the transfer of promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered. Fees earned on the execution of a significant act are recognised when the significant act has been completed.

Fee and commission income relates to revenue earned for the rendering of services and is recognised on the following basis:

- Commission from contractors – as collected amounts are paid over.
- Commission from insurers – on percentage of completion of the service rendered which is determined as premiums are paid over.
- Life insurance commission – as policies are issued to members by life insurers.
- Administration fees – on an accrual basis when the service is rendered.

When the Group is acting as an agent, amounts collected on behalf of the principal are not income. Only the net commission retained by the Group is, in this case, recognised as income.

1.15.3 Credit life premiums

Premiums receivable on insurance products are shown gross of any commission due and are exclusive of insurance premium tax. Premiums are recognised over the period in which the Group is liable for risk cover.

1.15.4 Other income

Other income is recognised on the following basis, unless collectability is in doubt:

- Investment income – on the accrual basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

2. PROPERTY AND EQUIPMENT

	Office furniture and equipment R'000	Computer equipment R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
GROUP					
At 1 September 2018					
Cost	16 736	43 910	7 236	26 800	94 682
Accumulated depreciation	(11 103)	(36 367)	(6 220)	(123)	(53 813)
Net book amount	5 633	7 543	1 016	26 677	40 869
Year ended 31 August 2019					
Opening net book amount	5 633	7 543	1 016	26 677	40 869
Additions	1 008	4 911	967	–	6 886
Disposals	(139)	(243)	–	–	(382)
Depreciation charge (note 25)	(1 073)	(3 455)	(579)	–	(5 107)
Closing net book amount	5 429	8 756	1 404	26 677	42 266
At 31 August 2019					
Cost	17 121	47 048	8 202	26 800	99 171
Accumulated depreciation	(11 692)	(38 292)	(6 798)	(123)	(56 905)
Net book amount	5 429	8 756	1 404	26 677	42 266
Year ended 31 August 2020					
Opening net book amount	**5 429**	**8 756**	**1 404**	**26 677**	**42 266**
Additions	**671**	**3 382**	**508**	**–**	**4 561**
Additions acquired through business combination	**–**	**145**	**28**	**363**	**536**
Disposals	**(112)**	**(25)**	**–**	**–**	**(137)**
Depreciation charge (note 25)	**(1 197)**	**(3 733)**	**(499)**	**–**	**(5 429)**
Closing net book amount	**4 791**	**8 525**	**1 441**	**27 040**	**41 797**
At 31 August 2020					
Cost	**17 341**	**50 391**	**8 254**	**27 163**	**103 149**
Accumulated depreciation	**(12 550)**	**(41 866)**	**(6 813)**	**(123)**	**(61 352)**
Net book amount	**4 791**	**8 525**	**1 441**	**27 040**	**41 797**

2. PROPERTY AND EQUIPMENT continued

	Office furniture and equipment R'000	Computer equipment R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
CO-OPERATIVE					
At 1 September 2018					
Cost	16 466	43 910	6 756	26 800	93 932
Accumulated depreciation	(11 098)	(36 367)	(6 099)	(123)	(53 687)
Net book amount	5 368	7 543	657	26 677	40 245
Year ended 31 August 2019					
Opening net book amount	5 368	7 543	657	26 677	40 245
Additions	1 008	4 880	–	–	5 888
Disposals	(139)	(243)	–	–	(382)
Depreciation charge (note 25)	(1 045)	(3 455)	(370)	–	(4 870)
Closing net book amount	5 192	8 725	287	26 677	40 881
At 31 August 2019					
Cost	16 852	47 017	6 756	26 800	97 425
Accumulated depreciation	(11 660)	(38 292)	(6 469)	(123)	(56 544)
Net book amount	5 192	8 725	287	26 677	40 881
Year ended 31 August 2020					
Opening net book amount	**5 192**	**8 725**	**287**	**26 677**	**40 881**
Additions	**643**	**3 322**	**536**	**–**	**4 501**
Disposals	**(112)**	**(24)**	**–**	**–**	**(136)**
Depreciation charge (note 25)	**(949)**	**(3 726)**	**(210)**	**–**	**(4 885)**
Closing net book amount	**4 774**	**8 297**	**613**	**26 677**	**40 361**
At 31 August 2020					
Cost	**17 043**	**50 155**	**6 808**	**26 800**	**100 806**
Accumulated depreciation	**(12 269)**	**(41 858)**	**(6 195)**	**(123)**	**(60 445)**
Net book amount	**4 774**	**8 297**	**613**	**26 677**	**40 361**

Land and buildings for the Group and the Co-operative mainly comprise the following:

- An office block complex, Fundu Park, was purchased in December 2006 at a cost of R4,4m on portion 3, site 8464, Secunda, Extension 13;
- An office block complex, Embankment Park, was purchased in August 2004 at a cost of R8,5m on portion 2, site 1350, Zwartkop, Extension 7;
- An office block complex, Iemas Park North, was erected during 1998 at a cost of R5,5m on site 1350, Zwartkop, Extension 7. The land was purchased on 8 July 1998; and
- An office block complex, Iemas Park South, was erected during 1999 at a cost of R3,8m on the remainder of portion 4, site 1350, Zwartkop, Extension 7. The land was purchased on 8 December 1998.

The Group adopted IFRS 16 on 1 September 2019. For the 2020 financial year, lease rentals relating to property were recognised and disclosed in terms of IFRS 16. For long-term lease rentals relating to property refer to note 3. Short-term lease rentals amounting to R2,1m are included in the statement of comprehensive income for both the Group and the Co-operative. For the 2019 financial year, leases relating to property were recognised in terms of IAS 17. Lease rentals for 2019 amounting to R12,2m are included in the statement of comprehensive income for both the Group and the Co-operative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

3. LEASES

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Right-of-use assets		
Buildings	14 207	–
	14 207	–
Lease liabilities		
Non-current portion of lease liabilities	8 209	–
Current portion of lease liabilities	6 857	–
	15 066	–

The following amounts relating to leases are recognised in the statement of comprehensive income:

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Interest expenditure (note 20)	1 588	–
Depreciation (note 25)	8 489	–
	10 077	–

The Group leases various offices throughout the country. Rental contracts are typically made for fixed periods of up to eight years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes.

The Group adopted IFRS 16 on 1 September 2019. For the 2020 financial year, lease rentals relating to property were recognised and disclosed in terms of IFRS 16. As a result a right-of-use asset and corresponding lease liabilities were recognised in the 2020 financial year.

The future minimum lease payments in relation to non-cancellable operating leases are receivable as follows:

	2020 R'000	2019 R'000
No later than one year	6 857	–
Later than one year but not later than five years	8 209	–
	15 066	–

4. INTANGIBLE ASSETS

	Group R'000	Co-operative R'000
At 1 September 2018		
Cost	47 833	45 449
Accumulated amortisation	(10 904)	(9 315)
Net book amount	36 929	36 134
Year ended 31 August 2019		
Opening net book amount	36 929	36 134
Additions	16 533	16 533
Amortisation charge (note 25)	(1 118)	(775)
Closing net book amount	52 344	51 892
At 31 August 2019		
Cost	64 366	61 982
Accumulated amortisation	(12 022)	(10 090)
Net book amount	52 344	51 892
Year ended 31 August 2020		
Opening net book amount	**52 344**	**51 892**
Additions	**11 354**	**11 088**
Additions acquired through business combination	**10 939**	**–**
Amortisation charge (note 25)	**(8 120)**	**(5 637)**
Closing net book amount	**66 517**	**57 343**
At 31 August 2020		
Cost	**86 658**	**73 070**
Accumulated amortisation	**(20 141)**	**(15 727)**
Net book amount	**66 517**	**57 343**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

4. INTANGIBLE ASSETS continued

Intangible assets mainly comprise the following:

- The re-engineering project related to the Iemas computer system, which amounted to a total cost of R6,3m. This system was fully amortised during the 2009 financial year;
- The Inovo Telecommunication system which was acquired at a total cost of R1,4m during the 2010 financial year. This system was fully amortised during the 2014 financial year;
- The Microsoft Dynamics AX system which was implemented in the financial department during the 2015 financial year at a total cost of R0,9m. During April 2017, a further R0,3m was capitalised for further developments done to the system;
- The Microsoft Dynamics Customer Relationship Management system was implemented during February 2017 at a total cost of R4,0m;
- The development of the new loan management system was finalised and the system was implemented on 1 November 2019. All external costs associated with the development of this system were capitalised. As at August 2020, this totalled R56,3m (2019: R49,0m);
- The Cardinal Insurance Management system was implemented in the Short-Term Insurance division during the 2014 financial year at a total cost of R1,7m;
- The Issue Insurance Software system was implemented in the Financial Advisory Division during August 2015 at a total cost of R0,7m;
- During the current financial year, the Co-operative did system development and customisation to the value of R3,8m on the SEA2 Card system to cater for the Co-operative's needs. The system was implemented on 1 November 2019. On 1 March 2020 iBelong Rewards Proprietary Limited purchased the SEA2 Card system from Cape Consumers Proprietary Limited for a total cost of R4,2m. Total costs for this system as at 31 August 2020 totalled to R4,3m after a further R0,1m was capitalised for additional developments done to the system. iBelong Rewards Proprietary Limited uses the SEA2 Card system for card administration purposes; and
- In the 2019 financial year, The Cooperative Switch Proprietary Limited implemented a new card payment platform at a total cost of R6,9m.

5. INVESTMENTS IN SUBSIDIARIES

	Group 2020 R'000	Group 2019 R'000	Co-operative 2020 R'000	Co-operative 2019 R'000
Shares at cost	**–**	–	**313**	313

	Number of shares	Effective holding %	Investment R
CO-OPERATIVE 2019			
Iemtech Proprietary Limited	1 000	100	1 000
Iemark Marketing Proprietary Limited (Dormant)	120	100	120
Torque Securitisation (RF) Limited (preference shares/note 36)	100	100	100
Iemas Insurance Brokers Proprietary Limited	200	100	310 684
Iemas Financing Proprietary Limited (Dormant)	100	100	100
The Cooperative Switch Proprietary Limited	50	50	1 000
			313 004
CO-OPERATIVE 2020			
Iemtech Proprietary Limited	**1 000**	**100**	**1 000**
Iemark Marketing Proprietary Limited (Dormant)	**120**	**100**	**120**
Torque Securitisation (RF) Limited (preference shares/note 36)	**100**	**100**	**100**
Iemas Insurance Brokers Proprietary Limited	**200**	**100**	**310 684**
Iemas Financing Proprietary Limited (Dormant)	**100**	**100**	**100**
The Cooperative Switch Proprietary Limited	**50**	**100**	**1 000**
iBelong Rewards Proprietary Limited	**100**	**100**	**100**
			313 104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

5. INVESTMENTS IN SUBSIDIARIES continued

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company does not differ from the proportion of ordinary shares held.

In the 2017 financial year, the Co-operative acquired 100% of the shares in Iemas Insurance Brokers Proprietary Limited for a total consideration of R135,0m, that consisted of R1,3m for computer systems, R0,7m for a leave pay provision, R0,3m for a deferred tax liability and a R134,7m common control reserve. Bank accounts to the value of R22,3m were sold to Iemas Insurance Brokers Proprietary Limited. Iemas Insurance Brokers Proprietary Limited was established by the Co-operative for the purpose of selling the insurance business of the Co-operative to the subsidiary. The sales transaction of the insurance divisions to Iemas Insurance Brokers Proprietary Limited was a common control transaction.

As a result of the business arrangements between Iemtech Proprietary Limited, Iemas Insurance Brokers Proprietary Limited and the Co-operative, with regards to the collection and administration of salary deductions, debit orders, bank deposits and other operational functions, the entities are indebted to each other in the normal course of business during different times of the month and year. For more detail on the balances outstanding as at year-end refer to note 33.

As discussed in note 36 the Co-operative consolidates the security special purpose vehicle Torque Securitisation (RF) Limited. Credit enhancement is provided by means of the subordinated loan as disclosed in note 9. No additional financial support was provided during the year.

During the 2018 financial year, a new card payment platform in partnership with another buying association, Cape Consumers Proprietary Limited, was developed. The platform is housed in a separate company, The Cooperative Switch Proprietary Limited, that was jointly owned by the Co-operative and Cape Consumers Proprietary Limited. The Co-operative acquired 50% of the shares in The Cooperative Switch Proprietary Limited in the 2018 financial year.

During the current financial year the Co-operative acquired 100% of the shares in iBelong Rewards Proprietary Limited for a total consideration of R7,5m, that consisted of the following:

	2020 R'000
Investment in The Cooperative Switch Proprietary Limited	**1**
Loan to The Cooperative Switch Proprietary Limited	**4 117**
Rental deposit	**263**
Furniture and equipment	**536**
Computer systems	**4 195**
Leave pay provision	**(1 079)**
Staff incentive liabilities	**(376)**
Tenant installation allowance liability	**(144)**
	7 513

iBelong Rewards Proprietary Limited acquired 50% of the shares in The Cooperative Switch Proprietary Limited from Cape Consumers Proprietary Limited. The Cooperative Switch Proprietary Limited is now 100% owned by the Group through the respective 50% investments by the Co-operative and iBelong Rewards Proprietary Limited.

6. INVESTMENTS IN INSURANCE CONTRACTS

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
– Iemas (Co-operative) Limited Cell "A12"	**1 549**	1 442
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**128 439**	126 885
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**25 285**	17 636
	155 273	145 963
GROUP		
Reconciliation of movement in investment in insurance contracts		
Iemas (Co-operative) Limited Cell "A12"		
At 1 September	**1 442**	3 839
Revenue – premiums earned	**32**	83
Revenue – investment income	**163**	316
Claims income	**21**	48
Reinsurance commission paid	**(103)**	(176)
Transactions with related parties	**(6)**	(2 668)
At 31 August	**1 549**	1 442
Iemas Financial Services (Co-operative) Limited Cell "00228"		
At 1 September	**126 885**	127 775
Revenue – premiums earned	**82 553**	78 028
Revenue – investment income	**8 993**	8 725
Claims costs	**(32 279)**	(18 995)
Reinsurance commission paid	**(11 287)**	(12 955)
Transactions with related parties	**(46 426)**	(55 693)
At 31 August	**128 439**	126 885
Iemas Financial Services (Co-operative) Limited Cell "00072"		
At 1 September	**17 636**	12 889
Revenue – premiums earned	**18 666**	16 704
Revenue – investment income	**1 171**	924
Claims costs	**(1 503)**	(4 017)
Reinsurance commission paid	**(5 178)**	(3 934)
Transactions with related parties	**(5 507)**	(4 930)
At 31 August	**25 285**	17 636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

6. INVESTMENTS IN INSURANCE CONTRACTS continued

	2020 R'000	2019 R'000
CO-OPERATIVE		
Reconciliation of movement in investment in insurance contracts		
Iemas (Co-operative) Limited Cell "A12"		
At 1 September	**1 442**	3 839
Revenue – premiums earned	**32**	83
Revenue – investment income	**163**	316
Claims income	**21**	48
Reinsurance commission paid	**(109)**	(194)
Transactions with related parties	**–**	(2 650)
At 31 August	**1 549**	1 442
Iemas Financial Services (Co-operative) Limited Cell "00228"		
At 1 September	**126 885**	127 775
Revenue – premiums earned	**82 553**	78 028
Revenue – investment income	**8 993**	8 725
Claims costs	**(32 279)**	(18 995)
Reinsurance commission paid	**(34 713)**	(38 648)
Transactions with related parties	**(23 000)**	(30 000)
At 31 August	**128 439**	126 885
Iemas Financial Services (Co-operative) Limited Cell "00072"		
At 1 September	**17 636**	12 889
Revenue – premiums earned	**18 666**	16 704
Revenue – investment income	**1 171**	924
Claims costs	**(1 503)**	(4 017)
Reinsurance commission paid	**(10 685)**	(8 864)
At 31 August	**25 285**	17 636

The Group's principal insurance contracts are contracts to underwrite the credit life risk of the vehicle-, pension-backed-, personal- and maxi-loan advances with the purpose of covering any credit life claims on these advances.

The risk under any one insurance contract is the likelihood of an insured event occurring and the financial impact thereof. The business written by the Group is linked to the contract duration, however it remains subject to some uncertainty due to its inherent nature.

6. INVESTMENTS IN INSURANCE CONTRACTS continued

	2020 R'000	2019 R'000
GROUP		
Income and expenditure arising directly from credit life insurance contracts		
Premium income in the statement of comprehensive income		
Revenue – premiums earned		
– Iemas (Co-operative) Limited Cell "A12"	**32**	83
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**82 553**	78 028
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**18 666**	16 704
	101 251	94 815
Income in other operating income		
Revenue – investment income (note 24)		
– Iemas (Co-operative) Limited Cell "A12"	**163**	316
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**8 993**	8 725
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**1 171**	924
	10 327	9 965
Expenditure in other operating expenses		
Claims (income)/cost (note 25)		
– Iemas (Co-operative) Limited Cell "A12"	**(21)**	(48)
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**32 279**	18 995
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**1 503**	4 017
	33 761	22 964
Reinsurance commission paid (note 25)		
– Iemas (Co-operative) Limited Cell "A12"	**103**	176
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**11 287**	12 955
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**5 178**	3 934
	16 568	17 065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

6. INVESTMENTS IN INSURANCE CONTRACTS continued

	2020 R'000	2019 R'000
CO-OPERATIVE		
Income and expenditure arising directly from credit life insurance contracts		
Premium income in the statement of comprehensive income		
Revenue – premiums earned		
– Iemas (Co-operative) Limited Cell "A12"	**32**	83
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**82 553**	78 028
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**18 666**	16 704
	101 251	94 815
Income in other operating income		
Revenue – investment income (note 24)		
– Iemas (Co-operative) Limited Cell "A12"	**163**	316
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**8 993**	8 725
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**1 171**	924
	10 327	9 965
Expenditure in other operating expenses		
Claims (income)/cost (note 25)		
– Iemas (Co-operative) Limited Cell "A12"	**(21)**	(48)
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**32 279**	18 995
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**1 503**	4 017
	33 761	22 964
Reinsurance commission paid (note 25)		
– Iemas (Co-operative) Limited Cell "A12"	**109**	194
– Iemas Financial Services (Co-operative) Limited Cell "00228"	**34 713**	38 648
– Iemas Financial Services (Co-operative) Limited Cell "00072"	**10 685**	8 864
	45 507	47 706

The Iemas (Co-operative) Limited Cell "A12" cell captive structure is arranged by Bryte Insurance Company Limited. As a result of the insurance company's historical decision to withdraw from all cell captive business in South Africa, no new policies are allowed in this structure. New business is conducted in the Iemas Financial Services (Co-operative) Limited Cell "00228" and Iemas Financial Services (Co-operative) Limited Cell "00072" cell captive structures, which are arranged by Guardrisk Insurance Company Limited. The credit ratings for these companies are as follows:

	Ratings 2020	Ratings 2019
– Guardrisk Insurance Company Limited	Ba1 (Apr 20) (Moody's)	Baa3 (Mar 18) (Moody's)
– Bryte Insurance Company Limited	A (Jul 20) (GCR)	A+ (Aug 18) (GCR)

The dates in the above table represents the date of the latest significant change of the credit rating.

7. DEFERRED INCOME TAX

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Deferred tax assets				
– To be recovered within 12 months	**94 199**	68 307	**86 482**	62 146
	94 199	68 307	**86 482**	62 146
Deferred tax liabilities				
– To be incurred after more than 12 months	**(4 599)**	(2 892)	**(3 951)**	(2 736)
– To be incurred within 12 months	**(24 091)**	(12 313)	**(22 258)**	(11 193)
	(28 690)	(15 205)	**(26 209)**	(13 929)
Deferred tax assets (net)	**65 509**	53 102	**60 273**	48 217
The gross movement on the deferred income tax account is as follows:				
At 1 September	**53 102**	46 701	**48 217**	42 215
Credited to the statement of comprehensive income (note 27)	**12 407**	4 036	**12 056**	3 637
Impact of initial application of IFRS 9 at 1 September 2018	**–**	2 365	**–**	2 365
At 31 August	**65 509**	53 102	**60 273**	48 217

The movement in the deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Section 12J investment R'000	Accelera-ted tax de-preciation R'000	Prepay-ments R'000	Doubtful debt allowance R'000	Total R'000
Deferred tax liabilities					
GROUP					
At 31 August 2018	–	(2 343)	(305)	(10 850)	(13 498)
Debit to the statement of comprehensive income	(448)	(100)	(249)	(910)	(1 707)
At 31 August 2019	(448)	(2 443)	(554)	(11 760)	(15 205)
Debit to the statement of comprehensive income	–	(1 707)	(115)	(11 663)	(13 485)
At 31 August 2020	**(448)**	**(4 150)**	**(669)**	**(23 423)**	**(28 690)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

7. DEFERRED INCOME TAX continued

	Section 12J investment R'000	Accelerated tax depreciation R'000	Prepayments R'000	Doubtful debt allowance R'000	Total R'000
Deferred tax liabilities					
CO-OPERATIVE					
At 31 August 2018	–	(2 111)	(304)	(9 800)	(12 215)
Debit to the statement of comprehensive income	(448)	(177)	(249)	(840)	(1 714)
At 31 August 2019	(448)	(2 288)	(553)	(10 640)	(13 929)
Debit to the statement of comprehensive income	–	(1 215)	(87)	(10 978)	(12 280)
At 31 August 2020	**(448)**	**(3 503)**	**(640)**	**(21 618)**	**(26 209)**

	Impairment R'000	Bonus and leave pay provisions R'000	Income received in advance R'000	Other R'000	Total R'000
Deferred tax assets					
GROUP					
At 31 August 2018	43 400	7 927	7 722	1 150	60 199
Credit to the statement of comprehensive income	3 360	411	705	1 267	5 743
Impact of initial application of IFRS 9 at 1 September 2018	280	–	–	2 085	2 365
At 31 August 2019	47 040	8 338	8 427	4 502	68 307
Credit/(debit) to the statement of comprehensive income	23 800	1 606	(724)	1 210	25 892
At 31 August 2020	**70 840**	**9 944**	**7 703**	**5 712**	**94 199**
CO-OPERATIVE					
At 31 August 2018	39 200	7 013	7 722	495	54 430
Credit to the statement of comprehensive income	3 080	384	705	1 182	5 351
Impact of initial application of IFRS 9 at 1 September 2018	280	–	–	2 085	2 365
At 31 August 2019	42 560	7 397	8 427	3 762	62 146
Credit/(debit) to the statement of comprehensive income	22 960	1 602	(724)	498	24 336
At 31 August 2020	**65 520**	**8 999**	**7 703**	**4 260**	**86 482**

"Other" comprises of general provisions, broker reserve funds and interest in suspense.

8. ADVANCES RECEIVABLE

	2020 R'000	2019 R'000
GROUP		
Gross advances	**6 638 357**	7 225 718
Repossessed vehicles[1]	**–**	5 437
Unearned finance charges	**(1 398 802)**	(1 862 233)
Net advances	**5 239 555**	5 368 922
Current members	**5 043 676**	5 285 791
Former members	**195 879**	83 131
Less: Interest in suspense	**(11 798)**	(10 265)
Less: Impairment of advances receivable (see note 22)	**(253 000)**	(168 000)
Net advances after impairment	**4 974 757**	5 190 657
Non-current portion of advances	**3 919 119**	4 050 031
Current portion of advances	**1 055 638**	1 140 626
Deferred initiation fees	**(27 506)**	(30 093)
Non-current portion of deferred initiation fees	**(19 319)**	(20 529)
Current portion of deferred initiation fees	**(8 187)**	(9 564)
Statement of financial position	**4 947 251**	5 160 564
Non-current portion of advances	**3 899 800**	4 029 502
Current portion of advances	**1 047 451**	1 131 062
	4 947 251	5 160 564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

8. ADVANCES RECEIVABLE continued

	2020 R'000	2019 R'000
CO-OPERATIVE		
Gross advances	**6 590 524**	7 181 013
Repossessed vehicles[(1)]	**–**	5 437
Unearned finance charges	**(1 398 802)**	(1 862 233)
Net advances	**5 191 722**	5 324 217
Current members	**4 995 843**	5 241 086
Former members	**195 879**	83 131
Less: Interest in suspense	**(11 798)**	(10 265)
Less: Impairment of advances receivable (see note 22)	**(253 000)**	(168 000)
Net advances after impairment	**4 926 924**	5 145 952
Non-current portion of advances	**3 919 119**	4 050 031
Current portion of advances	**1 007 805**	1 095 921
Deferred initiation fees	**(27 506)**	(30 093)
Non-current portion of deferred initiation fees	**(19 319)**	(20 529)
Current portion of deferred initiation fees	**(8 187)**	(9 564)
Statement of financial position	**4 899 418**	5 115 859
Non-current portion of advances	**3 899 800**	4 029 502
Current portion of advances	**999 618**	1 086 357
	4 899 418	5 115 859

(1) 2020 repossessed vehicles are included as part of advances.

Net advances in both the Group and Co-operative includes securitised assets of R278,2m (2019: R458,0m). The Co-operative sold certain participating assets subject to eligibility criteria and portfolio covenants to Torque Securitisation (RF) Limited, a special purpose entity established by the Co-operative. Torque Securitisation (RF) Limited issued various classes of notes to investors. Refer to note 17 for more details on the notes issued.

Due to the Co-operative being exposed to the majority of risks and rewards of Torque Securitisation (RF) Limited, the Co-operative did not derecognise the participating assets in terms of IFRS 9 and is also required to consolidate Torque Securitisation (RF) Limited in terms of *IFRS 10 'Consolidated financial statements'*. The Co-operative, therefore, continues to recognise the participating assets.

The net advances receivable, excluding the securitised assets of R278,2m (2019: R458,0m) that were sold to Torque Securitisation (RF) Limited, have been pledged as security for bank borrowing facilities (see note 17).

Repossessed vehicles consist of the collateral held on vehicle loans that are considered to be impaired and are valued at the second-hand trade value at the point of repossession after inspection of such a vehicle.

9. OTHER NON-CURRENT RECEIVABLES

	Group		Co-operative	
	2020 R'000	**2019 R'000**	**2020 R'000**	**2019 R'000**
Loan to related party	**–**	–	**5 300**	5 300
Investment in debt instruments	**–**	–	**126 500**	126 500
	–	–	**131 800**	131 800

The Co-operative provided a credit enhancement in terms of a subordinated loan of R5,3m (2019: R5,3m) to Torque Securitisation (RF) Limited to fund the purchase of the participating assets (refer note 8). Interest of prime plus 5,0% is earned on this loan and the loan capital is repayable only after all notes in issue have been fully redeemed. Interest accrued on the subordinated loan of R0,02m (2019: R0,03m) is included in trade and other assets.

The Co-operative invested in Class D2 Secured Floating Rate asset-backed notes to the value of R48,0m (2019: R48,0m) issued by Torque Securitisation (RF) Limited. The notes are subordinated to the class A6, class B3 and class C3 notes issued. The notes are compulsory redeemable and bear interest at the prime rate plus 4,5%. The scheduled maturity date of the notes is 15 May 2025 and the legal maturity date is 15 May 2028. Interest accrued on the Class D2 notes of R0,2m (2019: R0,3m) is included in trade and other assets.

The Co-operative invested in Class C3 Secured Floating Rate asset-backed notes to the value of R29,0m (2019: R29,0m) issued by Torque Securitisation (RF) Limited. The notes are compulsory redeemable and bear interest at 3-month JIBAR plus 3,0%. The scheduled maturity date of the notes is 15 May 2023 and the legal maturity date is 15 May 2028. Interest accrued on the Class C3 notes of R0,1m (2019: R0,1m) is included in trade and other assets.

The Co-operative invested in Class B3 Secured Floating Rate asset-backed notes to the value of R49,5m (2019: R49,5m) issued by Torque Securitisation (RF) Limited. The notes are compulsory redeemable and bear interest at 3-month JIBAR plus 2.6%. The scheduled maturity date of the notes is 15 May 2023 and the legal maturity date is 15 May 2028. Interest accrued on the Class B3 notes of R0,1m (2019: R0,2m) is included in trade and other assets.

The fair value of the class B3, class C3 and class D2 notes closely approximates their carrying amount due to variable interest rates associated with these instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

10. INVESTMENT SECURITIES

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Investment in Hollard Insurance Company Limited cell captive				
At 1 September	**1 035**	–	**–**	–
Reclassify asset from available-for-sale to investment securities	**–**	552		
Fair value remeasurement	**(517)**	483	**–**	–
At 31 August	**518**	1 035	**–**	–
Investment in nReach One Proprietary Limited				
At 1 September	**2 000**	–	**2 000**	–
Increase in investment	**–**	2 000	**–**	2 000
At 31 August	**2 000**	2 000	**2 000**	2 000
Investment securities	**2 518**	3 035	**2 000**	2 000

The investment in Hollard Insurance Company Limited cell captive represents Iemtech Proprietary Limited's investment in its Hollard Insurance Company Limited cell captive. Iemtech Proprietary Limited's investment in the cell captive is fully re-insured and therefore carries no insurance risk.

Investment income from this financial assets is recorded as part of other operating income in the statement of comprehensive income and comprises premiums received, interest income, claims paid and other expenditure incurred in the cell captive.

During the 2019 financial year the Co-operative invested R2,0m for a period of five years in shares issued at R1 per share by nReach One Proprietary Limited. nReach One Proprietary Limited is classified as a venture capital company in terms of section 12J of the Income Tax Act, No 58 of 1962. The company utilises the investment made by the Co-operative to fund small- and medium-sized enterprises.

The investment in Hollard Insurance Company Limited cell captive was previously classified as available-for-sale financial assets.

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
AVAILABLE-FOR-SALE ASSETS				
At 1 September	**–**	552	**–**	–
Reclassify asset from available-for-sale to investment securities	**–**	(552)	**–**	–
At 31 August	**–**	–	**–**	–

11. CASH AND CASH EQUIVALENTS

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash on hand	**46**	58	**46**	58
Cash at bank	**171 950**	154 742	**42 797**	24 959
Total cash and bank	**171 996**	154 800	**42 843**	25 017
Restricted cash	**15 783**	15 416	**–**	–
Cash and cash equivalents	**187 779**	170 216	**42 843**	25 017

In terms of the securitisation programme Torque Securitisation (RF) Limited is required to maintain a reserve fund equal to the lesser of the principal amount outstanding of the notes or 1% of the principal amount outstanding of the notes as at the most recent issue date. In addition, an arrears fund equal to 100% of the aggregate outstanding principal of all delinquent participating assets is required. An amount of R9,5m (2019: R9,3m) is included as restricted cash in the Group.

An amount of R6,3m (2019: R6,1m) shown as restricted cash in the Group, is kept in a separate bank deposit account in Iemas Insurance Brokers Proprietary Limited. This is held to comply with the Financial Sector Conduct Authority's capital adequacy requirement of long-term insurers as prescribed in the Long-Term Insurance Act, No 52 of 1998.

The long-term credit ratings for the bank balances held are:

	2020		2019	
	Global credit rating	Latest significant change date	Global credit rating	Expiry date
Absa Bank Limited	**AA**	**(Jul 20)**	AA	(May 18)
Standard Bank of South Africa Limited	**AA+**	**(Jul 20)**	AA+	(May 18)
FirstRand Bank Limited	**AA+**	**(Jul 20)**	AA+	(Dec 18)

12. TRADE AND OTHER ASSETS

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Receivables from related parties (note 33)	**–**	–	**97 259**	103 766
Cash-in-transit suspense	**115**	610	**–**	–
Prepaid expenses	**3 453**	2 744	**3 453**	2 744
Other	**9 488**	7 418	**5 248**	3 643
	13 056	10 772	**105 960**	110 153

The carrying value of trade and other assets approximates their fair value due to the short-term maturities of these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

13. SHARE CAPITAL

In terms of the Co-operatives Amendment Act, No 6 of 2013 and Iemas' constitution, membership of the Co-operative does not require members to take up shares in the Co-operative.

14. OTHER RESERVES

	Investment securities reserve R'000	Special reserve R'000	General reserve R'000	Total R'000
GROUP				
At 1 September 2018	552	97 494	143 872	241 918
Net gains on investments in equity instruments designated at FVOCI (note 10)	483	–	–	483
Transfer to general reserve	–	(82 137)	82 137	–
At 31 August 2019	1 035	15 357	226 009	242 401
At 1 September 2019	1 035	15 357	226 009	242 401
Net loss on investments in equity instruments designated at FVOCI (note 10)	(517)	–	–	(517)
Transfer from general reserve	–	425	(425)	–
At 31 August 2020	**518**	**15 782**	**225 584**	**241 884**
CO-OPERATIVE				
At 1 September 2018	–	97 494	143 872	241 366
Transfer to general reserve	–	(82 137)	82 137	–
At 31 August 2019	–	15 357	226 009	241 366
At 1 September 2019	–	15 357	226 009	241 366
Transfer from general reserve	–	425	(425)	–
At 31 August 2020	**–**	**15 782**	**225 584**	**241 366**

The special reserve represents a non-distributable reserve that is set aside as required by Section 33 of the Co-operatives Amendment Act, No 6 of 2013. The Act requires that every year a co-operative must retain indivisible reserves equal to such amount as may be determined by its constitution. As per resolution at the annual general meeting, 1% of the Co-operative's net asset value is allocated to a separate "reserve fund", which is indivisible among it's members and will only become distributable to the members when the Co-operative ceases to exist.

The general reserve represents an amount that was transferred based on a historical decision by the Board of Directors. This is a distributable reserve and is treated as a separate portion of retained reserves.

The annual transfers are approved by the Board of Directors and are based on the funding and legal requirements of the business.

15. MEMBERS' FUNDS

	R'000
GROUP AND CO-OPERATIVE	
At 1 September 2018	814 064
Interest credited to members' funds (note 34)	47 412
Co-operative rewards credited to members' funds (note 34)	42 332
Appropriations of members' funds as collateral against advances	(10 364)
Under provision of prior year rewards (note 34)	399
Disbursements to members	(45 508)
At 31 August 2019	848 335
At 1 September 2019	**848 335**
Interest credited to members' funds (note 34)	**37 495**
Co-operative rewards credited to members' funds (note 34)	**31 872**
Appropriations of members' funds as collateral against advances	**(15 245)**
Over provision of prior year rewards (note 34)	**(1 446)**
Disbursements to members	**(37 638)**
At 31 August 2020	**863 373**

This liability is repayable to members in cash or is set off against any amounts owing to the Co-operative at the date of resignation or death. Interest is allocated to members' funds on an annual basis at a market-related rate. For the first six months of 2020, an interest rate of 6,00% was approved by the Board of Directors on the liability balance as at the end of February 2020. For the last six months of 2020, an interest rate of 3,25% was approved by the Board of Directors on the liability balance at the end of the year. A rate of 6,25% was approved for the full 2019 financial year.

16. CASH CO-OPERATIVE REWARDS PAYABLE TO MEMBERS

	R'000
GROUP AND CO-OPERATIVE	
At 1 September 2018	20 307
Co-operative rewards and interest accrued for the year*	104 394
	124 701
Transfer to members' funds*	(89 744)
Cash co-operative rewards paid to members (note 29)	(15 431)
Over provision of prior year cash co-operative rewards (note 34)	(1 363)
At 31 August 2019	18 163
At 1 September 2019	**18 163**
Co-operative rewards and interest accrued for the year*	**80 481**
	98 644
Transfer to members' funds*	**(69 367)**
Cash co-operative rewards paid to members (note 29)	**(14 946)**
Under provision of prior year cash co-operative rewards (note 34)	**13**
At 31 August 2020	**14 344**

* *Included in co-operative rewards declared to members (note 34).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

17. BORROWINGS

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Non-current	**1 129 447**	1 577 638	**1 271 552**	1 712 245
Standard Bank of South Africa Limited	**350 000**	500 000	**350 000**	500 000
Absa Bank Limited	**400 000**	500 000	**400 000**	500 000
First National Bank (a division of FirstRand Bank Limited)	**350 000**	400 000	**350 000**	400 000
Torque Securitisation (RF) Limited	**–**	–	**171 552**	312 245
Torque Securitisation (RF) Limited – notes issued	**29 447**	177 638	**–**	–
Current	**1 521 612**	1 298 167	**1 504 969**	1 294 583
Standard Bank of South Africa Limited	**500 120**	300 376	**500 120**	300 376
Absa Bank Limited	**500 000**	400 212	**500 000**	400 212
First National Bank (a division of FirstRand Bank Limited)	**388 896**	431 024	**388 896**	431 024
Cape Consumers Proprietary Limited	**7 803**	–	**–**	–
Torque Securitisation (RF) Limited	**–**	–	**115 953**	162 971
Torque Securitisation (RF) Limited – notes issued	**124 793**	166 555	**–**	–
Total borrowings	**2 651 059**	2 875 805	**2 776 521**	3 006 828

The facilities consist of:

	Review date	**Expiry date**	**Interest rate linked to**	**Facility R'000**
Standard Bank of South Africa Limited	n/a	Dec 2021	1-month JIBAR	250 000
Standard Bank of South Africa Limited	n/a	Dec 2021	1-month JIBAR	100 000
Standard Bank of South Africa Limited	n/a	Jun 2021	1-month JIBAR	250 000
Standard Bank of South Africa Limited	n/a	Jun 2021	1-month JIBAR	250 000
Absa Bank Limited	n/a	Dec 2020	Prime	500 000
Absa Bank Limited	n/a	Dec 2021	Prime	200 000
Absa Bank Limited	n/a	Jun 2022	Prime	200 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Dec 2020	1-month JIBAR	300 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Sep 2021	1-month JIBAR	100 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Dec 2021	1-month JIBAR	250 000
First National Bank (a division of FirstRand Bank Limited)	Oct 2020	n/a	*	450 000
				2 850 000

* *Interest on the R450m facility with First National Bank (a division of FirstRand Bank Limited) is calculated on a daily basis on the ruling day money rates of the money and capital markets.*

Refer to note 8 for the advances receivable ceded as security. These facilities require that certain ratios are met in terms of the common terms agreement.

17. BORROWINGS continued

The fair value of borrowings is based on the quoted market price for the same or similar instruments or on the current rates available or borrowings with the same maturity profile and effective interest rate with similar cash flows. The fair value of borrowings with variable interest rates approximate their carrying amounts.

Torque Securitisation (RF) Limited funded the borrowings by issuing notes to investors. The notes were issued to fund the purchase of participating assets from the Group (refer note 8). Detail of the notes issued is presented below:

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Class A6 notes	**153 914**	342 853	**–**	–
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R 1,000,000 each. The notes bear interest at 3-month JIBAR plus 2,08%. The scheduled maturity date is 15 May 2021. The legal maturity date is 15 May 2028. The amounts disclosed are the total notes in issue for this class.				
Class B3 notes	**–**	–	**–**	–
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2,60%. The scheduled maturity date is 15 May 2023. The legal maturity date is 15 May 2028. The total notes in issue for this class amount to R49,5m.				
Class C3 notes	**–**	–	**–**	–
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 3,00%. The scheduled maturity date is 15 May 2023. The legal maturity date is 15 May 2028. The total notes in issue for this class amount to R29,0m.				
Class D2 notes	**–**	–	**–**	–
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at prime rate plus 4,50%. The scheduled maturity date is 15 May 2025. The legal maturity date is 15 May 2028. The total notes in issue for this class amount to R48,0m.				
Interest accrued	**326**	1 340	**–**	–
Loan payable to Torque Securitisation (RF) Limited	**–**	–	**287 505**	475 216
The interest payable on the loan is equal to the interest payable on the underlying securitised advances, net of impairment. The loan is repaid as the underlying securitised advances are repaid.				
At 31 August	**154 240**	344 193	**287 505**	475 216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

17. BORROWINGS continued

Torque Securitisation (RF) Limited issued various classes of notes to investors consisting of:

- Class A6 secured floating rate notes;
- Class B3 secured floating rate notes;
- Class C3 secured floating rate notes; and
- Class D2 secured floating rate notes.

The notes are backed by a pool of South African auto loan receivables originated by the Co-operative. The class B, class C and class D notes are subordinated in favour of the class A notes. The class C and class D notes are subordinated in favour of the class B notes and the class D notes are subordinated in favour of the class C notes.

The Co-operative invested in 100% of the class B3, class C3 and class D2 notes. The class A6 notes were taken up by an external investor.

Capital repayments are based on the quarterly capital received on the corresponding performing advances and as such the contractual capital repayment profile of the advances, as opposed to the legal maturity of the notes, has been used to calculate the current *versus* non-current disclosure. In June 2019 an additional R199,1m class A6 notes were issued. The additional funds were utilised to purchase qualifying assets from the Co-operative. Consequently, the legal maturity dates of every class of note was updated to 15 May 2028.

The fair value of the class A6, class B3, class C3 and class D2 notes closely approximates their carrying amount due to variable interest rates associated with these instruments.

During the current financial year iBelong Rewards Proprietary Limited purchased Cape Consumers Proprietary Limited's card business. As per the sale of business agreement iBelong Rewards Proprietary Limited created a loan in favour of Cape Consumers Proprietary Limited of R7,5m that is the amount equal to the purchase price (refer note 5). Interest of R0,3m were capitalised during the year. The loan will be repaid by means of withdrawals in tranches as set out in the loan agreement. The loan account will be credited on the last day of each calendar month with interest calculated on a daily basis and compounded monthly based on the amount of the various tranches of the principal debt and at the interest rate applicable to each tranche of the principal debt as set out in the loan agreement.

Capital is repayable in 4 tranches of 25% each. These are due within 6 months of the previous tranch with the last payable 31 August 2021. Interest is rasied per tranch at a rate between 7% and 8%. Interest on call account is raised on a 3 month JIBAR rate plus 0.3%.

18. OTHER NON-CURRENT PROVISIONS

Personnel bonus and incentive provision

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
At 1 September	**–**	–	**–**	–
Net personnel bonuses accrued	**6 197**	–	**6 197**	–
At 31 August	**6 197**	–	**6 197**	–

19. TRADE AND OTHER LIABILITIES

	Group 2020 R'000	Group 2019 R'000	Co-operative 2020 R'000	Co-operative 2019 R'000
Card merchants	**38 337**	43 941	**144 128**	43 941
Premiums payable	**40 788**	41 946	**–**	–
Unclaimed balances owed to current and former members	**22 938**	27 046	**22 938**	27 046
Insurance rewards payable	**5 867**	6 131	**–**	–
Accrued expenses				
– Bonuses	**20 190**	20 603	**17 956**	18 852
– Leave pay	**9 509**	8 478	**7 287**	6 866
Brokers' commission	**3 378**	2 641	**–**	–
Pay as you earn	**3 344**	2 268	**2 205**	1 938
Audit fee accrual	**3 403**	2 092	**3 135**	1 865
Dealers	**9 037**	12 482	**9 037**	12 482
Trade creditors	**19 274**	16 839	**12 979**	13 166
	176 065	184 467	**113 874**	126 156

The carrying amount approximates fair value due to the short-term in which these obligations are settled.

The balances owed to card merchants mainly represent amounts payable to suppliers in respect of Iemas purchase card purchases for the months of July and August.

The insurance rewards payable represents the rewards calculated and payable to customers on short-term insurance transactions by the customers with Iemas Insurance Brokers Proprietary Limited.

20. INTEREST EXPENDITURE

	Group 2020 R'000	Group 2019 R'000	Co-operative 2020 R'000	Co-operative 2019 R'000
Interest expenditure	**217 134**	249 701	**236 551**	272 447
Gain on finance costs	**–**	–	**(7 163)**	(5 719)
	217 134	249 701	**229 388**	266 728
Interest expenditure consist of:				
– Bank borrowings	**193 703**	221 192	**193 703**	221 192
– Torque Securitisation (RF) Limited	**–**	–	**34 098**	45 536
– Torque Securitisation (RF) Limited – Notes issued	**21 489**	28 509	**–**	–
– Lease liabilities (note 3)	**1 588**	–	**1 588**	–
– Other	**354**	–	**–**	–
	217 134	249 701	**229 389**	266 728

In terms of IFRS 9 the gain on finance costs represents a deduction in future cash flows as a result of impairments.

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21. INCOME TAX PAID

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Payable at the beginning of the year	**(2 899)**	(1 716)	**(2 234)**	–
Receivable at the beginning of the year	**2 080**	3 367	**–**	126
Normal tax (note 27)	**(24 743)**	(28 317)	**(13 714)**	(18 061)
Receivable at the end of the year	**(3 883)**	(2 080)	**(3 187)**	–
Payable at the end of the year	**1 739**	2 899	**–**	2 234
	(27 706)	(25 847)	**(19 135)**	(15 701)

22. IMPAIRMENT OF ADVANCES RECEIVABLE

The gross movement on the impairment is as follows:

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
At 31 August (IAS 39)	**168 000**	155 000	**168 000**	155 000
Impact of initial application of IFRS 9 at 1 September	**–**	1 000	**–**	1 000
Restated balance at 1 September	**168 000**	156 000	**168 000**	156 000
Advances written off during the year as uncollectible	**(65 143)**	(87 993)	**(65 143)**	(87 993)
Impairment charge	**150 143**	99 993	**150 143**	99 993
At 31 August	**253 000**	168 000	**253 000**	168 000
Impairment of advances in the statement of comprehensive income is as follows:				
New impairment raised (note 8)	**253 000**	168 000	**253 000**	168 000
Unused amounts reversed	**(102 857)**	(68 007)	**(102 857)**	(68 007)
Impairment charge	**150 143**	99 993	**150 143**	99 993
Post write-off recoveries	**(12 328)**	(11 962)	**(12 328)**	(11 962)
Impairment of advances receivable	**137 815**	88 031	**137 815**	88 031

23. FEE AND COMMISSION INCOME

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Administration fees	**73 136**	52 159	**61 008**	58 443
Commission	**77 729**	76 776	**13 431**	15 687
	150 865	128 935	**74 439**	74 130

24. OTHER OPERATING INCOME

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Dividends received (note 33)	**–**	–	**22 000**	95 000
Investment income (note 6)	**10 327**	9 965	**10 327**	9 965
Realised return on investment securities	**2 328**	2 341	**–**	–
Other income	**3 499**	4 173	**3 432**	4 096
	16 154	16 479	**35 759**	109 061

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

25. OPERATING EXPENDITURE

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
The following items have been charged against other operating expenditure:				
Amortisation of intangible assets (note 4)	**8 120**	1 118	**5 637**	775
Auditor's remuneration	**4 959**	5 394	**4 257**	4 713
– Audit fees	**4 284**	4 040	**3 561**	3 412
– Overprovision prior year	**(242)**	(110)	**(221)**	(163)
– Non-audit fees	**917**	1 464	**917**	1 464
Bank charges	**2 295**	2 747	**1 439**	1 891
Broker commissions	**6 828**	3 895	**–**	–
Card costs	**5 986**	1 412	**4 314**	1 412
Computer services	**45 319**	24 924	**37 597**	21 569
Credit Bureau charges	**2 574**	2 042	**2 574**	2 042
Credit life insurance claims (note 6)	**33 761**	22 964	**33 761**	22 964
Depreciation of property and equipment (note 2)	**5 429**	5 107	**4 885**	4 870
Depreciation of right-of-use assets (note 3)	**8 489**	–	**8 489**	–
Directors' emoluments	**25 962**	21 400	**19 456**	21 190
– Non-executive directors	**3 567**	3 345	**3 231**	3 135
– Executive directors	**22 395**	18 055	**16 225**	18 055
Salaries	**11 895**	13 224	**7 028**	13 224
Short-term incentive	**5 195**	4 831	**4 531**	4 831
Long-term incentive	**5 305**	–	**4 666**	–
Insurance	**1 424**	1 548	**1 424**	1 548
Insurance rewards	**5 312**	5 507	**–**	–
Marketing costs	**2 564**	2 884	**2 127**	2 523
Municipal services	**6 240**	6 777	**6 240**	6 777
Other professional services	**5 257**	5 415	**4 856**	4 981
Reinsurance commission paid (note 6)	**16 568**	17 065	**45 507**	47 706
Rentals in respect of leases	**2 054**	12 294	**2 054**	12 294
Repairs and maintenance	**3 417**	4 836	**3 417**	4 835
Security costs	**1 832**	1 368	**1 832**	1 368
Service provider fee	**1 322**	1 658	**–**	–
Skills development costs	**1 715**	2 396	**1 299**	1 914
Staff costs (note 26)	**189 049**	181 855	**155 752**	147 476
Stationery	**3 385**	4 080	**3 385**	4 080
Telephone and postages	**5 970**	6 702	**5 970**	6 701
Travel expenses	**1 497**	1 751	**1 274**	1 470
Vehicle running costs	**5 018**	10 478	**4 815**	10 253
Other	**21 471**	20 070	**15 601**	13 160
	423 817	377 687	**377 962**	348 512

26. STAFF COSTS

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Wages and salaries (including performance bonuses)	**175 422**	168 182	**144 128**	136 248
Pension costs – defined contribution plans	**13 627**	13 673	**11 624**	11 228
	189 049	181 855	**155 752**	147 476

27. INCOME TAX

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Current				
South African normal tax (note 21)	**24 743**	28 317	**13 714**	18 061
Deferred				
Deferred income tax (note 7)	**(12 407)**	(4 036)	**(12 056)**	(3 637)
Income tax expense	**12 336**	24 281	**1 658**	14 424
Tax rate reconciliation	**%**	%	**%**	%
Effective rate of tax	**17.1**	20.7	**3.0**	8.2
The tax rate has been affected by:				
Profit on insurance contracts	**12.5**	8.1	**17.1**	5.4
Dividends received	**–**	–	**11.6**	15.2
Disallowed expenditure	**(1.6)**	(0.8)	**(3.7)**	(0.8)
Standard rate of South African tax	**28.0**	28.0	**28.0**	28.0

Disallowed expenditure mainly consists of legal fees and certain provisions raised that are not allowed as tax deductions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

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28. STATEMENT OF CASH FLOW

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Cash utilised by operations				
Profit before income tax	**72 127**	117 486	**54 882**	175 271
Adjusted for:				
Interest income	**(674 728)**	(691 233)	**(680 280)**	(695 600)
Interest expenditure	**217 645**	249 416	**227 297**	266 377
Interest credited to members' funds (note 15)	**37 495**	47 412	**37 495**	47 412
Impairment charge on advances receivable (note 22)	**150 143**	99 993	**150 143**	99 993
Premium income (note 6)	**(101 251)**	(94 815)	**(101 251)**	(94 815)
Fee and commission income	**(150 865)**	(128 935)	**(74 207)**	(73 789)
Other income	**(16 154)**	(16 479)	**(13 759)**	(14 061)
Depreciation of property and equipment (note 2)	**5 429**	5 107	**4 885**	4 870
Depreciation of right-of-use asset (note 3)	**8 489**	–	**8 489**	–
Loss on disposals of property and equipment	**131**	357	**131**	357
Amortisation of intangible assets (note 4)	**8 120**	1 118	**5 637**	775
Appropriations of members' funds (note 15)	**(15 245)**	(10 364)	**(15 245)**	(10 364)
Dividends received (note 24)	**–**	–	**(22 000)**	(95 000)
Rewards to members (note 34)	**41 553**	56 018	**41 553**	56 018
Staff and incentive provision (note 18)	**6 197**	–	**6 197**	–
Interest receivable	**13 057**	(4 873)	**12 634**	(5 545)
Accrued interest	**1 077**	283	**2 091**	351
Interest in suspense	**1 533**	2 820	**1 533**	2 820
Servicer fee receivable	**–**	–	**(232)**	(340)
Insurance rewards payable (note 19)	**5 867**	6 131	**–**	–
Changes in working capital:				
Advances (excluding impairments)	**48 580**	(401 689)	**51 708**	(403 243)
(Increase)/decrease in trade and other assets	**(4 647)**	(4 278)	**4 847**	(27 854)
(Decrease)/increase in trade and other liabilities	**(15 866)**	391	**(12 282)**	5 430
	(361 313)	(766 134)	**(309 734)**	(760 937)
NET DEBT RECONCILIATION				
The analysis of net debt is as follows:				
Net debt				
Cash and cash equivalents (excluding restricted cash) (note 11)	**171 996**	154 800	**42 843**	25 017
Liabilities arising from financing activities (note 17)	**(2 651 059)**	(2 875 805)	**(2 776 521)**	(3 006 828)
Borrowings repayable within one year	**(1 521 612)**	(1 298 167)	**(1 504 969)**	(1 294 583)
Borrowings repayable after one year	**(1 129 447)**	(1 577 638)	**(1 271 552)**	(1 712 245)
	(2 479 063)	(2 721 005)	**(2 733 678)**	(2 981 811)

28. STATEMENT OF CASHFLOW continued

The movement in net debt is as follows:

	Opening R'000	Cash flows R'000	Non-cash move-ment/ maturity reclassifi-cation R'000	Closing R'000
GROUP				
As at 31 August 2019				
Cash and cash equivalents (excluding restricted cash) (note 11)	171 676	(16 876)	–	154 800
Liabilities arising from financing activities (note 17)	(2 695 539)	(179 982)	(284)	(2 875 805)
Bank borrowings due within one year (excluding accrued interest)	(1 298 000)	68 200	100 000	(1 129 800)
Bank borrowings due after one year	(1 050 000)	(250 000)	(100 000)	(1 400 000)
Notes due within one year	(152 903)	1 818	(14 130)	(165 215)
Notes due after one year	(191 768)	–	14 130	(177 638)
Accrued interest	(2 868)	–	(284)	(3 152)
Net Debt	(2 523 863)	(196 858)	(284)	(2 721 005)
As at 31 August 2020				
Cash and cash equivalents (excluding restricted cash) (note 11)	**154 800**	**17 196**	**–**	**171 996**
Liabilities arising from financing activities (note 17)	**(2 875 805)**	**231 750**	**(7 004)**	**(2 651 059)**
Bank borrowings due within one year (excluding accrued interest)	**(1 129 800)**	**93 100**	**(350 000)**	**(1 386 700)**
Bank borrowings due after one year	**(1 400 000)**	**(50 000)**	**350 000**	**(1 100 000)**
Notes due within one year	**(165 215)**	**188 939**	**(148 191)**	**(124 467)**
Notes due after one year	**(177 638)**	**–**	**148 191**	**(29 447)**
Other borrowings due within one year	**–**	**(289)**	**(7 514)**	**(7 803)**
Accrued interest	**(3 152)**	**–**	**510**	**(2 642)**
Net Debt	**(2 721 005)**	**248 946**	**(7 004)**	**(2 479 063)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

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28. STATEMENT OF CASHFLOW continued

	Opening R'000	Cash flows R'000	Non-cash movement/ maturity reclassification R'000	Closing R'000
CO-OPERATIVE				
As at 31 August 2019				
Cash and cash equivalents (excluding restricted cash) (note 11)	7 474	17 543	–	25 017
Liabilities arising from financing activities (note 17)	(2 832 390)	(174 088)	(350)	(3 006 828)
Bank borrowings due within one year (excluding accrued interest)	(1 298 000)	68 200	100 000	(1 129 800)
Bank borrowings due after one year	(1 050 000)	(250 000)	(100 000)	(1 400 000)
Other borrowings due within one year	(158 689)	(4 282)	–	(162 971)
Other borrowings due after one year	(324 239)	11 994	–	(312 245)
Accrued interest	(1 462)	–	(350)	(1 812)
Net Debt	(2 824 916)	(156 545)	(350)	(2 981 811)
As at 31 August 2020				
Cash and cash equivalents (excluding restricted cash) (note 11)	**25 017**	**17 826**	**–**	**42 843**
Liabilities arising from financing activities (note 17)	**(3 006 828)**	**230 810**	**(503)**	**(2 776 521)**
Bank borrowings due within one year (excluding accrued interest)	**(1 129 800)**	**93 100**	**(350 000)**	**(1 386 700)**
Bank borrowings due after one year	**(1 400 000)**	**(50 000)**	**350 000**	**(1 100 000)**
Other borrowings due within one year	**(162 971)**	**47 018**	**–**	**(115 953)**
Other borrowings due after one year	**(312 245)**	**140 692**	**–**	**(171 553)**
Accrued interest	**(1 812)**	**–**	**(503)**	**(2 315)**
Net Debt	**(2 981 811)**	**248 636**	**(503)**	**(2 733 678)**

29. CO-OPERATIVE REWARDS PAID TO MEMBERS

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Cash rewards payable at the beginning of the year	**(18 163)**	(20 307)
Cash portion of total rewards payable (note 34)	**(11 114)**	(14 650)
(Under)/over provision of prior year cash co-operative rewards (note 16)	**(13)**	1 363
Cash rewards payable at the end of the year (note 16)	**14 344**	18 163
	(14 946)	(15 431)

30. COMMITMENTS

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Operating lease commitments		
The future minimum operating lease payments which can be terminated are as follows:		
Less than one year	–	9 014
More than one year but less than five years	–	12 920
	–	21 934

The Group adopted IFRS 16 on 1 September 2019 (refer note 3). For the 2020 financial year, lease rentals relating to property were recognised and disclosed in terms of IFRS 16. For the 2019 financial year, leases relating to property were recognised in terms of IAS 17. The effect for 2019 of the escalation clauses for rentals on properties is detailed above as part of the straight-lining performed on these leases.

31. GUARANTEE

First National Bank, a division of FirstRand Bank Limited, on behalf of Iemas Insurance Brokers Proprietary Limited, has issued a guarantee of R60,2m (2019: R60,2m) in favour of the Financial Sector Conduct Authority for net premiums collected and not paid over to the different insurers. The short-term insurance regulations, published on 28 September 2018, provided that from 31 March 2019 the guarantee is no longer required, however, a common law prescription period of three years applies.

This guarantee is secured by a cession of advances receivable (refer to note 8).

32. RETIREMENT BENEFIT INFORMATION

Independent funds provide pension and other benefits for permanent employees and their dependents. At the end of the financial year, the following funds were in existence:

- Sanlam Umbrella Pension Fund; and
- Sanlam Provident Fund.

Members pay a maximum contribution of 7,5%. The Group's contributions are charged against the statement of comprehensive income and amounted to R12,6m (2019: R12,5m) for the Co-operative and R14,8m (2019: R15,0m) for the Group.

The Group is under no contractual obligation to guarantee retirement benefits, as all employees are part of the defined contribution scheme. No liability is provided for in this regard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

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33. RELATED PARTIES

	2020 R'000	2019 R'000
All the related parties are incorporated in South Africa. For a list and the nature of the relationship of the related parties refer to note 5 and note 6.		
Key management personnel		
The Executive Committee has the responsibility for planning, directing and controlling the activities of the Group and is consequently classified as key management personnel. Before restructuring the committee in May 2019, it solely consisted of the executive directors. The restructured committee comprise of the executive directors, Managing Executive: Financing Business, Chief Information Officer, Group Manager: Human Resources and Managing Director: Iemas Insurance Brokers. Compensation is included as related party transactions for the duration of membership to the Executive Committee.		
All non-executive directors, including the entity that provides director services to the Group are classified as key management personnel.		
GROUP		
Income and expenses		
Key management personnel		
Salaries	**16 407**	15 262
Pension costs – defined contribution plans	**1 180**	1 290
Short-term incentive	**6 025**	5 000
Long-term incentive	**6 197**	–
Interest paid	**151**	210
Non-executive directors – directors' emoluments	**3 567**	3 345
Outstanding balances		
Key management personnel		
Advances during the year	**1 064**	2 626
Outstanding balance at the end of the year	**1 693**	1 741
Leave pay accrued	**1 171**	699
CO-OPERATIVE		
Income and expenses		
Commission and administration fees received from		
Torque Securitisation (RF) Limited	**2 796**	3 167
Iemas Insurance Brokers Proprietary Limited	**28 436**	29 026
iBelong Rewards Proprietary Limited	**727**	–
Dividends received from		
Iemas (Co-operative) Limited Cell "A12"	**–**	2 650
Iemas Financial Services (Co-operative) Limited Cell "00228"	**23 000**	30 000
Iemtech Proprietary Limited	**–**	5 000
Iemas Insurance Brokers Proprietary Limited	**22 000**	25 000
Torque Securitisation (RF) Limited	**–**	65 000
Interest received from		
Torque Securitisation (RF) Limited in respect of:		
– subordinated loan	**736**	801
– class D2 notes	**6 617**	7 020
– class B3 notes	**4 281**	4 789
– class C3 notes	**2 624**	2 922

33. RELATED PARTIES continued

	2020 R'000	2019 R'000
Interest paid to		
Torque Securitisation (RF) Limited	**34 098**	45 536
Administration fees paid to		
iBelong Rewards Proprietary Limited	**2 449**	–
Card transaction fees paid to		
The Cooperative Switch Proprietary Limited	**3 398**	562
System development expenditure paid to		
Cape Consumers Proprietary Limited	**–**	664
Key management personnel		
Salaries	**13 983**	15 262
Pension costs – defined contribution plans	**1 013**	1 290
Short-term incentive	**5 885**	5 000
Long-term incentive	**6 197**	–
Interest paid	**151**	210
Non-executive directors – directors emoluments	**3 231**	3 135
Loan advances during the year		
Loans advanced to related parties		
Torque Securitisation (RF) Limited	**–**	199 114
Loans replaced between related parties		
Torque Securitisation (RF) Limited	**–**	597
Outstanding balances		
Current receivable from related parties		
Iemtech Proprietary Limited	**–**	50
Iemas Insurance Brokers Proprietary Limited	**91 617**	99 191
The Cooperative Switch Proprietary Limited	**3 514**	3 513
iBelong Rewards Proprietary Limited	**1 473**	–
Torque Securitisation (RF) Limited		
– Interest accrued related to the subordinated loan	**24**	37
– Interest accrued related to the investment in class B3 notes	**72**	205
– Interest accrued related to the investment in class C3 notes	**115**	125
– Interest accrued related to the investment in class D2 notes	**212**	305
– Servicer fee	**232**	340
Non-current receivable from related parties		
Torque Securitisation (RF) Limited		
– Subordinated loan	**5 300**	5 300
– Investment in class B3 notes	**49 500**	49 500
– Investment in class C3 notes	**29 000**	29 000
– Investment in class D2 notes	**48 000**	48 000
Payable to related parties		
Torque Securitisation (RF) Limited		
– Non-current portion (note 17)	**171 552**	312 245
– Current portion (note 17)	**115 953**	162 971
The Cooperative Switch Proprietary Limited	**1 448**	–
Key management personnel		
Advances during the year	**1 064**	2 626
Outstanding balance at the end of the year	**1 693**	1 741
Leave pay accrued	**974**	699

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for the year ended 31 August 2020

34. CO-OPERATIVE REWARDS DECLARED TO MEMBERS

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Cash portion of total co-operative rewards payable (note 29)	**11 114**	14 650
Co-operative rewards credited to members' funds (note 15)	**31 872**	42 332
(Over)/under provision of prior year co-operative rewards (note 15)	**(1 446)**	399
Under/(over) provision of prior year cash co-operative rewards (note 16)	**13**	(1 363)
Co-operative rewards to members	**41 553**	56 018
Interest credited to members' funds (note 15)	**37 495**	47 412
Co-operative rewards and interest accrued for the year	**79 048**	103 430

35. IMPACT OF COVID-19

The Covid-19 pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour. This in turn has had a significant impact on the risks that the Group is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. This high degree of uncertainty has forced the Group to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial results. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

The most substantial impact on the Group relates to credit risk. IFRS 9 requires ECL allowances to be recognised based on a stage allocation methodology:

- Stage 1 ECL allowance reflects the total losses associated with defaults that are expected to occur within 12 months of the reporting date. Exposures must be moved to stage 2 when a significant increase in credit risk has been observed.
- Stage 2 and stage 3 exposures carry an ECL allowance that is based on the losses expected to occur over the lifetime of the exposure.

The ECL allowance estimation must include an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible economic conditions. IFRS 9 models use the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD). Significant judgement and estimates are applied when quantifying the ECL allowance on loans and advances, and even more so now as credit models are not calibrated for events such as the Covid-19 crisis. Given the deteriorating economic environment, specific increases in PDs and LGDs were made to appropriately capture the Covid-19 environment.

As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact. Management adjustments were therefore required, in addition to the model outputs, to provide a more appropriate assessment of risk. These additional management adjustments have required greater governance across the Group and were robustly challenged and reviewed by the Group's finance department. A revised approach to the estimation of PDs, identification of significant increase in credit risk (stage 2 impairment), forward-looking scenarios and the impact on estimated ECL allowances was employed. Further complexity was added by the relief measures provided to eligible members.

35.1 Relief measures provided to members

The Group implemented the following four relief measures to financially assist its members.

- Forbearance
- Debt relief
- Debt consolidation and term extensions
- Emergency loans

35. IMPACT OF COVID-19 continued

35.1 Relief measures provided to members continued

Forbearance

Forbearance provided the Group's members' time to repay delinquent asset-based accounts. This was advantageous to the member, and offering forbearance would benefit the Group, which prevented write-offs should assets be repossessed and sold on auction. Forbearance measures were only available on vehicle loans.

The terms of a forbearance agreement were negotiated between the Group and the member on a case-by-case basis. The opportunity for such an agreement depended on the likelihood that the member would be able to resume monthly repayments once the temporary forbearance was over. The Group may have approved a full or only a partial reduction of the member's instalment depending upon the extent of the member's need and the Group's confidence in the member's ability to catch up at a later date.

Members that applied for forbearance were evaluated against a qualifying criteria. Qualifying members could apply for a payment break of no longer than two months.

Debt relief

Debt relief refers to a mechanism offered by a credit provider to a borrower to provide temporary relief for the repayment of a loan or credit facility. Mechanisms that could be used were interest rate adjustments, term extensions or payment breaks. The mechanism used depended on the specific circumstances of the members.

The Group implemented a debt relief program ("payment break") to its members. Every application for a payment break was considered individually and on its own merit. Applications were only considered where the members' income was adversely impacted by the effects of the Covid-19 pandemic. Applications were considered against the approved policy and a payment break were provided for approved applications for an approved term based on the member's specific circumstances. No installments were requested for the payment break period. The last payment date of an account was effectively postponed with the payment break period. Installments resumed normally after the end of the postponement period. Monthly interest, fees and credit insurance premiums were requested and capitalised against an account for the postponement period.

For certain qualifying members, the implementation of an overall interest rate adjustment, with the subsequent lowering of the monthly instalment was considered, which benefited the members and had a smaller impact on the Group than for instance a payment break.

Debt consolidation

To assist members, the Group granted the option of consolidating external debt in accordance with the Iemas Credit Policy in order to improve monthly cash flow for the member.

Emergency loans

During the national lockdown, certain members were needing financing to deal with a financial crisis. The National Credit Act provided that the Group may grant emergency loans to members up to R6 000 where the amounts are repayable within six months. In addition to capping the time period and amount of emergency loan, the National Credit Act also set a maximum monthly interest rate of 5%.

The Group's existing credit policies continued to apply to members not meeting the debt relief eligibility criteria.

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35. IMPACT OF COVID-19 continued

35.1 Relief measures provided to members continued

The gross carrying value of loans and advances to customers that were granted debt relief as at 31 August 2020 is as follows:

	Debt relief gross amount of recognised financial assets R'000	Total gross amount of recognised financial assets R'000	Percentage of recognised financial assets %
GROUP AND CO-OPERATIVE			
Pension-backed loans	85 593	1 301 212	6.58
Vehicle loans	219 410	2 775 598	7.90
Maxi loans	40 118	562 510	7.13
Other unsecured loans	48 578	552 402	8.79
	393 699	5 191 722	7.58

35.2 Key economic variables

As indicated above, ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible economic conditions. The global shocks experienced in the market have led to a highly uncertain and unprecedented environment and to address such uncertainty, the key economic variables impacting credit risk and ECL per product, utilised at 31 August 2019, has been updated. The ranges between the base, mid-point, upside and downside scenarios varies significantly when compared to those presented at 31 August 2019. As at 31 August 2020, it is the Group's view that the mid-point scenario is more likely to occur as opposed to the alternative scenarios, and has been weighted accordingly.

The Group considers several factors in the development of its economic scenarios including economic growth/retraction and expected recovery, sector specific impacts, unemployment rates and regulatory actions.

The most significant period-end assumptions used for the ECL estimate at year-end are set out in the table below:

2020	Base (%)	Upside (%)	Mid-point (%)	Downside (%)
GDP growth	(8.20)	(7.10)	(9.30)	(11.40)
Unemployment	30.10	30.00	32.00	33.00

The narrative below explains the basis of these economic variables for each of the scenarios, specifically with regards to the impact of Covid-19.

Base scenario as at 31 August 2020

GDP is negative 8.2% in 2020, showing some recovery in 2021. With the country already in recession before Covid-19, only moderate growth is expected. Unemployment expected to climb in Q1. The gradual re-opening of the economy results in a spike in Covid-19 cases, however a hard lock-down is avoided.

35. IMPACT OF COVID-19 continued

35.2 Key economic variables continued

Upside scenario as at 31 August 2020

The Covid-19 new infection rate starts decreasing. Progress is made in developing a vaccine, which is easily accessible for South Africans in 2021. The return to work is faster, although work from home remains, if possible. Motor trade are still below previous levels and slow to recover. Higher income categories benefit from the SARB rate cuts; however, no further easing and rate cuts are expected. The unemployment rate declines somewhat and rising productivity boosts wages, lifting household incomes and spending.

Downside scenario as at 31 August 2020

The pandemic escalates after a renewed wave of coronavirus is experienced with more cases than anticipated i.e the health crisis persists longer than expected. Possibility of another level 5/4 lock down environment. Social distancing and work from home remains for the remainder of the 2021 financial year. A much weaker growth outlook, resulting in more job losses.

35.3 Estimation of probability of default (PD), loss given default (LGD) and significant increase in credit risk (SICR)

As the Group's ECL modelling methodology does not automatically consider the typical complexity of the current economic environment, management applied these economic scenarios in conjunction with the following considerations with regards to Covid-19, to determine the appropriate management adjustment when recognising ECL losses for the reporting period.

PD and LGD

PD and LGD were adjusted for current and forward-looking information, based on historical information dating back to the 2008 financial crisis. These PD and LGD scaling factors will be reassessed as the impacts of Covid-19 unfolds and the level of member distress becomes evident within the model.

SICR events

The impact of Covid-19 on PDs and LGDs, as well as the provision of debt relief, were considered to determine whether a SICR event, which would result in a shift in the exposure from Stage 1 (12-month expected losses) to Stage 2 (full lifetime expected losses), has taken place. Employer group and sectorial stratifications were also considered in the SICR evaluation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

35. IMPACT OF COVID-19 continued

35.4 Impairment losses pre- and post-management adjustments

The table below provides a breakdown of the total ECL recognised at 31 August 2020 to reflect the impairment charge calculated using the Group's approved models together with the management adjustments raised to incorporate the effects of Covid-19.

	Impairment losses pre-management adjustments R'000	Covid-19 management adjustment R'000	Total impairment losses R'000
GROUP AND CO-OPERATIVE			
Vehicle loans	**131 176**	26 000	157 176
Maxi loans	**68 951**	–	68 951
Other unsecured loans	**16 873**	10 000	26 873
	217 000	36 000	253 000

Other areas of the Group's financial results have not been impacted significantly by the advent of the pandemic and no further Covid-19 disclosures are needed.

36. FINANCIAL RISK MANAGEMENT

The Group has risk management embedded in its philosophy, practices, strategic planning, line management responsibilities and operations. Structures are in place to exercise control and oversee the risk management process towards generating continued value for members and promoting the interest of all its stakeholders. The Iemas Board of Directors is ultimately responsible for risk management and is supported by the Audit and Risk Committee and the Corporate Risk Office.

The outbreak of the Covid-19 pandemic has significantly increased the risks faced globally by financial markets participants and the economy and has materially changed the economic outlook to the downside. Increased focus on risk and capital management has been initiated to address the uncertain outlook over the short- and medium-term horizon. The strategic focus has moreover shifted to one of supporting the Group's stakeholders, whilst preserving capital and liquidity and maintaining the operational resilience of the Group during this time. For further information, refer to the Impact of Covid-19 section in note 35.

The risk management policy is based on best practices such as the International Standard ISO 31000. The process of risk analysis is conducted annually, when a change in business processes or circumstances is recorded or when a new project is embarked upon. The Group recognises the balance required between entrepreneurial endeavour and effective risk management practice in its quest to create long-term competitive advantage. The Group's activities expose it to the following financial risks:

Credit risk

Credit risk refers to the risk of suffering financial loss should any of the Group's members, employer groups or counterparties fail to fulfil their contractual obligations to the Group due to deterioration in the financial status of the counterparty and any debtors to which members and policyholders are exposed. It could also arise from the decrease in value of an asset subsequent to the downgrading of counterparties.

Credit risk arises from investment securities, investment in insurance contracts, other non-current receivables, trade receivables and advances receivable.

36. FINANCIAL RISK MANAGEMENT continued

Market risk

Market risk for members is the risk that the fair value on future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuers, or factors affecting all similar financial instruments traded in the market. Market risk arises from investment securities.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations when they fall due as a result of members' reward payments, cash requirements from contractual commitments, or other cash outflows.

The purpose of the following section is to provide information on the processes in place to manage and mitigate the financial risks inherent in the Group.

36.1 Credit risk

Credit risk in the Group is managed in terms of the Credit Risk Policy. The overall responsibility for the effectiveness of credit risk management processes vests with the Board of Directors. The Chief Financial Officer has been mandated with the management and execution of the credit granting function and is accountable to ensure that a governance framework system and processes are in place, including the establishment of structures and forums required.

Credit risk governance

The Group Credit Committee consist of three ex officio members namely the Chief Financial Officer, the Group Manager: Strategy, Assurance and Compliance and the Managing Executive: Financing Business. The Chief Financial Officer is the Chairperson of the Committee. The Group Credit Committee may co-opt members with appropriate expertise and experience to assist in the assessment of a credit application or the revision of the Group's credit appetite.

Managing credit risk

Management recognises and accepts that losses may occur through the inability of a counterparty to pay amounts in full when due. In order to limit this risk, the Group Credit Committee has formulated guidelines regarding the assessment of customers' credit worthiness. These guidelines included the affordability assessment as required by the National Credit Act, management of credit risk associated with various customers depending on their portfolio, a detailed assessment of the counterparty's financial strength, the prevailing economic environment, industry classification and other qualitative factors. The Group Credit Committee periodically, but not less than once every 24 months, review the credit policy and guidelines to ensure it is in line with market trends and the Group's strategy. Proposed changes to the credit policy is submitted for consideration and approval by the Executive Committee.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. The Co-operative performs credit evaluations of the financial position of its members and, where appropriate, requires credit life insurance. At 31 August 2020 the Co-operative was of the opinion that there was no significant concentration of credit risk that had not been adequately provided for. More detail on the management of the credit risk on advances is presented in the accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.1 Credit risk measurement

Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using probability of default (PD) and loss given default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

Credit mitigation instruments are used, where appropriate. These include collateral and guarantees. There is also a specialist asset recovery unit that is responsible for repossessions and constitutes an important part of Iemas' risk management programme.

Iemas' main business model is based on strong relationships with the employers that Iemas has contracted to provide salary deduction-backed facilities to their employees. Iemas' business could be adversely affected, should legislation be introduced that prohibits salary deductions.

The Covid-19 pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour. The consequent impact of the lockdown restrictions on the portfolio of assets was severe, materialising in an increase in the credit risk exposure due to the relative deterioration in asset quality over the period, and a substantial rise in the impairment charge due to the significant increase in expected credit losses given the macroeconomic outlook. For further information, refer to the Impact of Covid-19 section in note 35.

Transferred assets that are not derecognised

Iemas sold participating assets that complied with the eligibility criteria and portfolio covenants to an issuer (Torque Securitisation (RF) Limited). The issuer funded the purchase by issuing notes to investors and drawing down on a subordinated loan provided by Iemas. A security special purpose vehicle was established for the purpose of guaranteeing the performance by the issuer of its obligation to secured creditors (which include note holders, Iemas as the subordinated lender, Iemas as the first loss loan provider and other creditors of the issuer) set out in the priority of payments. Iemas retained substantially all the risks and rewards of ownership due to the nature of the credit enhancements provided. The subordinated retained interest absorbs all the variability in the cash flows and, therefore, the participating assets are recognised in their entirety, as even though the transfer of cash flows has been met, Iemas still retains substantial risks and rewards of ownership. Based on the above facts, the assets are still being reflected on the Co-operative's statement of financial position.

The details of Torque Securitisation (RF) Limited as a financial instrument measured at amortised cost are presented below:

	2020 R'000	2019 R'000
Torque financial instruments at amortised cost		
Carrying amount of assets	**299 384**	490 060
Carrying amount of liabilities	**(287 445)**	(477 738)

For all liabilities that have recourse only to the transferred assets, management has assessed that the fair value of assets and liabilities approximate the cost.

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.2 Credit quality

Cash and cash equivalents and funds borrowed from banks

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
The balances borrowed from banks are as follows (note 17):				
Absa Bank Limited	**900 000**	900 212	**900 000**	900 212
Standard Bank of South Africa Limited	**850 120**	800 376	**850 120**	800 376
First National Bank (a division of FirstRand Bank Limited)	**738 896**	831 024	**738 896**	831 024
The balances held with banks are as follows (note 11):				
First National Bank (a division of FirstRand Bank Limited)	**187 733**	170 158	**42 797**	24 959

The long-term credit ratings for all the banks where balances are held are disclosed in note 11. Management considered the concentration risk on cash and cash equivalents and is of the opinion that the risk is adequately managed by holding funding balances at three of the major banks in South Africa.

Receivables from related parties

Included in receivables from related parties for the Co-operative is a receivable of R91,6m (2019: R99,2m) from Iemas Insurance Brokers Proprietary Limited, a wholly-owned subsidiary of the Co-operative. The detail of this receivable is set out in the following table:

	2020 R'000	**2019 R'000**
Employer group receivables and deposits	**119 235**	91 290
Daily operational related transactions	**(27 618)**	7 901

Employer group receivables and deposits consist of financing transactions with employer groups that Iemas Insurance Brokers Proprietary Limited collects on behalf of the Co-operative and for which the funds have not been received as at 31 August 2020. As and when funds are received in cash, it is transferred to the Co-operative. If funds are not received, the financing transactions are reversed to the Co-operative. These cash flows are not separately disclosed. No interest is raised on either the employer Group receivables or the receivable between the Co-operative and Iemas Insurance Brokers Proprietary Limited, due to the short-term nature thereof. At year-end there was no employer group with funds outstanding that was considered to be irrecoverable. Iemas Insurance Brokers Proprietary Limited provided a limited guarantee, ceding this receivable as security for bank borrowings of the Co-operative (note 17).

Daily operational related party transactions pertain to inter-company transactions between the Co-operative and Iemas Insurance Brokers Proprietary Limited in the normal course of business. These transactions are not subject to any interest charge. Related party income and charges are included in related party disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.3 Expected credit loss measurement

IFRS 9 outlines a three-stage model for impairment, based on changes in credit quality since initial recognition as summarised below:

i. A financial instrument that is not credit-impaired on initial recognition is classified in stage 1 and has its credit risk continuously monitored by the Group.

ii. If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to stage 2 but is not yet deemed to be credit-impaired. The Group considers a financial instrument to have experienced a SICR when one or more of the following qualitative criteria has been met:

- The instrument is in arrears for a period greater than 30 days up to 90 days;
- The instrument entered into a greater than 30-day arrear category and cured to a performing loan, three times or more in the financial year;
- The status of the member linked to the instrument is updated as either being deceased, under administration, debt rehabilitation, debt review or debt rescheduling;
- A member was granted a 3-month payment holiday during the Covid-19 period and has not resumed payment or is in arrears at year-end;
- Contracts that are linked to high-risk industries, specifically employer groups in the entertainment sector; and
- Members linked to employer groups where there is a high risk of retrenchments or other industrial action.

iii. If the financial instrument is credit-impaired, the financial instrument is then moved to stage 3. The Group considers a financial instrument as credit-impaired when one or more of the following quantitative criteria has been met:

- The instrument is in arrears for a period greater than 90 days; and
- Legal action has been taken against the member or the vehicle held as collateral has been handed over for repossession.

iv. Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in stages 2 or 3 have their ECL measured based on ECL on a lifetime basis. Please refer to 36.1.3.1 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

v. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Refer to 36.1.3.2 for an explanation of how the Group has incorporated this in its ECL models.

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

35.1.3 Expected credit loss measurement continued

36.1.3.1 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL's are the discounted product of the probability of default (PD) and loss given default (LGD), defined as below:

- The PD represents the likelihood of a member defaulting on its financial obligation, either over the next 12 months (12-month PD), or over the remaining lifetime (lifetime PD) of the obligation.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by product and the collateral available. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is effectively determined by multiplying the PD and LGD with the exposure at the date of default, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month and lifetime PD's are calculated on a granular contract level by monitoring the movement of contracts between stages from one reporting date to another, which is then assumed to be the same across all assets within a portfolio. Even though benchmarked against, this estimation technique has been updated from the maturity profiles and write-off history applied in the prior financial year.

The 12-month and lifetime LGD's are determined based on the factors which impact the recoveries made post default. This vary by product type and is determined based on historical recovery data presented as a percentage of the loan exposure at date of default, expressed monthly over the full recovery period.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. These assumptions vary by product type. Refer to note 36.1.3.2 for detail on the forward-looking information and the inclusion in the ECL calculations.

Except as indicated above and as described in note 35, no significant changes in estimation techniques or significant assumptions were made during the reporting period.

36.1.3.2 Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has identified, based on historical experience, the key economic variables impacting credit risk and ECL per product. The sensitivity of the PD and LGD to these economic variables also vary per product. Forecasts of these economic variables are based on a mixture of external economic forecasting data available and management's judgements. A base economic scenario, together with an upside, mid-point and downside were calculated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.3 Expected credit loss measurement continued

36.1.3.2 Forward-looking information incorporated in the ECL models continued

The most significant period-end assumptions used for the ECL estimate at year-end are set out in the tables below:

2019	Base (%)	Upside (%)	Mid-point (%)	Downside (%)
Prime interest rate	10.00	9.75	10.00	10.25
Inflation	4.40	4.50	4.80	5.00
GDP growth	0.50	2.00	1.00	0.70
Unemployment	27.20	27.00	27.80	29.00

2020	Base (%)	Upside (%)	Mid-point (%)	Downside (%)
GDP growth	**(8.20)**	**(7.10)**	**(9.30)**	**(11.40)**
Unemployment	**30.10**	**30.00**	**32.00**	**33.00**

Due to the abnormal fluctuations in the prime and inflation rates in the current year during these Covid-19 times, management concluded that movements in these forward looking indicators would not provide a true reflection on the credit risk associated with the ECL allowance and is therefore not included in the current year's calculation.

Sensitivity analysis

The most significant assumption affecting the ECL allowance for all products is the unemployment rate. Set out below are the changes to the ECL at reporting date that would result from a 0.25% change in the unemployment rate per economic scenario, before taking into account the impact of discounting:

2019	Base R'000	Upside R'000	Mid-point R'000	Downside R'000
Vehicle loans				
Original ECL	103 187	89 233	100 340	114 013
ECL after 0,25% increase in unemployment rate	103 187	91 882	102 799	116 289
Sensitivity (%)	–	3.0	2.5	2.0
Maxi loans				
Original ECL	37 806	31 141	39 544	47 854
ECL after 0,25% increase in unemployment rate	37 806	33 029	41 082	49 335
Sensitivity (%)	–	6.1	3.9	3.1

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.3 Expected credit loss measurement continued

36.1.3.2 Forward-looking information incorporated in the ECL models continued

2019	Base R'000	Upside R'000	Mid-point R'000	Downside R'000
Other unsecured loans				
Original ECL	25 366	20 326	28 116	37 341
ECL after 0,25% increase in unemployment rate	25 366	21 969	29 810	39 032
Sensitivity (%)	–	8.1	6.0	4.5
Total				
Original ECL	166 359	140 700	168 000	199 208
ECL after 0,25% increase in unemployment rate	166 359	146 880	173 691	204 656
Sensitivity (%)	–	4.4	3.4	2.7

The 2020 table reflects the changes to the ECL at reporting date that would result from a 0.25% change in the unemployment rate per economic scenario, after taking into account the impact of discounting:

2020	Base R'000	Upside R'000	Mid-point R'000	Downside R'000
Vehicle loans				
Original ECL	**130 961**	**97 766**	**157 176**	**203 730**
ECL after 0,25% increase in unemployment rate	**130 961**	**97 955**	**157 490**	**202 861**
Sensitivity (%)	**–**	**0.2**	**0.2**	**(0.4)**
Maxi loans				
Original ECL	**59 420**	**49 904**	**68 951**	**80 747**
ECL after 0,25% increase in unemployment rate	**59 420**	**51 735**	**71 006**	**83 019**
Sensitivity (%)	**–**	**3.7**	**3.0**	**2.8**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.3 Expected credit loss measurement continued

36.1.3.2 Forward-looking information incorporated in the ECL models continued

2020	Base R'000	Upside R'000	Mid-point R'000	Downside R'000
Other unsecured loans				
Original ECL	**28 955**	**24 588**	**26 873**	**30 079**
ECL after 0,25% increase in unemployment rate	**28 955**	**24 443**	**27 036**	**29 440**
Sensitivity (%)	**–**	**(0.6)**	**0.6**	**(2.1)**
Total				
Original ECL	**219 336**	**172 258**	**253 000**	**314 556**
ECL after 0,25% increase in unemployment rate	**219 336**	**174 133**	**255 532**	**315 320**
Sensitivity (%)	**–**	**1.1**	**1.0**	**0.2**

* *Historical statistics showed a slight increase in recoverary rates for vehicle loans and other unsecured loans under high stress economic conditions. This results in a positive impact on the downside ECL sensitivity and a respective negative impact on the upside.*

36.1.4 Credit risk exposure

Maximum exposure to credit risk on loans and advances subject to impairment

The gross carrying amount of financial assets below represents the maximum exposure to credit risk on loans and advances for the Group and the Co-operative. The following tables contain an analysis of the credit risk exposure of these assets:

	Net advances before impairment R'000	ECL staging Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000
GROUP				
As at 31 August 2019				
Pension-backed loans	1 307 947	1 307 947	–	–
Vehicle loans	2 931 665	2 548 958	260 231	122 476
Maxi loans	534 099	492 411	11 386	30 302
Other unsecured loans	550 506	509 841	13 280	27 385
Employer groups	44 705	44 705	–	–
	5 368 922	**4 903 862**	**284 897**	**180 163**

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.4 Credit risk exposure continued

	Net advances before impairment R'000	ECL staging Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000
As at 31 August 2020				
Pension-backed loans	**1 301 212**	**1 301 212**	**–**	**–**
Vehicle loans	**2 775 598**	**2 495 750**	**108 632**	**171 216**
Maxi loans	**562 510**	**492 832**	**31 619**	**38 059**
Other unsecured loans	**552 402**	**515 431**	**19 163**	**17 808**
Employer groups	**47 833**	**47 833**	**–**	**–**
	5 239 555	**4 853 058**	**159 414**	**227 083**
CO-OPERATIVE				
As at 31 August 2019				
Pension-backed loans	1 307 947	1 307 947	–	–
Vehicle loans	2 931 665	2 548 958	260 231	122 476
Maxi loans	534 099	492 411	11 386	30 302
Other unsecured loans	550 506	509 841	13 280	27 385
	5 324 217	**4 859 157**	**284 897**	**180 163**
As at 31 August 2020				
Pension-backed loans	**1 301 212**	**1 301 212**	**–**	**–**
Vehicle loans	**2 775 598**	**2 495 750**	**108 632**	**171 216**
Maxi loans	**562 510**	**492 832**	**31 619**	**38 059**
Other unsecured loans	**552 402**	**515 431**	**19 163**	**17 808**
	5 191 722	**4 805 225**	**159 414**	**227 083**

Maximum exposure to credit risk – financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment:

	2020 R'000	2019 R'000
GROUP		
As at 31 August		
Investment securities	**2 518**	3 035
Cash and cash equivalents	**187 779**	170 216
Trade and other assets excluding pre-payments	**9 603**	8 028
	199 900	181 279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.4 Credit risk exposure continued

	2020 R'000	2019 R'000
CO-OPERATIVE		
As at 31 August		
Other non-current receivables	**131 800**	131 800
Investment securities	**2 000**	2 000
Cash and cash equivalents	**42 843**	25 017
Trade and other assets excluding pre-payments	**102 507**	107 409
	279 150	266 226

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

Credit risk in respect of the exposure of the Group is mitigated by collateral such as the deferred bonus payment fund, pension fund cessions and credit life policies. The Group obtain collateral as part of the loan origination process. The principal collateral types for loans and advances are:

- *Pension-backed loans:* A portion of the member's retirement benefit is ceded to recover any bad debts on these loans.
- *Vehicle loans:* The member's vehicle is held as security for these loans. Current market trade values have been applied to the adjusted vehicle kilometre readings in calculating the collateral value of vehicles. The kilometre readings were taken at inception of the contract and have subsequently been adjusted with a depreciation rate based on historical trends.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.4 Credit risk exposure continued

Advances – collateral

Advances comprise vehicle loans, pension-backed loans, maxi loans (unsecured consumer loans) and other unsecured loans (personal loans). The fair value of advances receivable approximates the carrying value in the statement of financial position, due to the term of the advances and small fluctuations observed in the interest rate and credit environment. The net advances, as disclosed in note 8, represent the Group and Co-operative's maximum exposure to credit risk. The following collateral is held for the different advances:

	Net advances before im-pairment R'000	Collateral R'000	Members' funds appro-priation R'000	(Over)/ under colla-teralised R'000
GROUP				
As at 31 August 2019				
Pension-backed loans	1 307 947	1 307 947	43 502	(43 502)
Vehicle loans	2 931 665	2 390 890	61 583	479 192
Maxi loans	534 099	–	60 592	473 507
Other unsecured loans	550 506	–	104 852	445 654
Employer groups	44 705	–	–	44 705
	5 368 922	**3 698 837**	**270 529**	**1 399 556**
As at 31 August 2020				
Pension-backed loans	**1 301 212**	**1 301 212**	**39 003**	**(39 003)**
Vehicle loans	**2 775 598**	**2 181 620**	**65 879**	**528 099**
Maxi loans	**562 510**	**–**	**66 355**	**496 155**
Other unsecured loans	**552 402**	**–**	**90 451**	**461 951**
Employer groups	**47 833**	**–**	**–**	**47 833**
	5 239 555	**3 482 832**	**261 688**	**1 495 035**
CO-OPERATIVE				
As at 31 August 2019				
Pension-backed loans	1 307 947	1 307 947	43 502	(43 502)
Vehicle loans	2 931 665	2 390 890	61 583	479 192
Maxi loans	534 099	–	60 592	473 507
Other unsecured loans	550 506	–	104 852	445 654
	5 324 217	**3 698 837**	**270 529**	**1 354 851**
As at 31 August 2020				
Pension-backed loans	**1 301 212**	**1 301 212**	**39 003**	**(39 003)**
Vehicle loans	**2 775 598**	**2 181 620**	**65 879**	**528 099**
Maxi loans	**562 510**	**–**	**66 355**	**496 155**
Other unsecured loans	**552 402**	**–**	**90 451**	**461 951**
	5 191 722	**3 482 832**	**261 688**	**1 447 202**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.4 Credit risk exposure continued

The calculation of collateral on vehicle loans as well as deferred bonus payment refund appropriations are extended to ensure that in addition to the current limitation, both the vehicle and deferred bonus payment fund collateral combined do not exceed the outstanding loan amount.

Any over-collateralisation per individual loan as a result of the appropriation of members' funds is repayable to the member in accordance with the Co-operative's Constitution.

36.1.5 Impairment loss allowance

The impairment loss allowance is raised for advances, based on a stage allocation methodology (refer to section 1.8.2.4 of the accounting policies and note 36.1.3). 12-month ECL is calculated on stage 1 advances; lifetime ECL is calculated on stage 2 and stage 3 advances.

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between stage 1 and stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month ECL and lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

The following tables set out the movement in the gross carrying amount per product to help explain their significance in calculating the impairment loss allowance under IFRS 9:

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
GROUP AND CO-OPERATIVE				
Pension-backed loans				
At 1 September 2018	1 264 946	–	–	1 264 946
New advances originated	333 506	–	–	333 506
Collections received including interest adjustment	(290 442)	–	–	(290 442)
Write-offs	(63)	–	–	(63)
At 31 August 2019	1 307 947	–	–	1 307 947
At 1 September 2019	1 307 947	–	–	1 307 947
New advances originated	308 587	–	–	308 587
Collections received and fees raised	(315 257)	–	–	(315 257)
Write-offs	(65)	–	–	(65)
At 31 August 2020	**1 301 212**	**–**	**–**	**1 301 212**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
Vehicle loans				
At 1 September 2018	2 451 492	242 496	115 823	2 809 811
Transfers				
– Transfer from stage 1 to stage 2	(191 584)	191 584	–	–
– Transfer from stage 1 to stage 3	(42 786)	–	42 786	–
– Transfer from stage 2 to stage 3	–	(28 618)	28 618	–
– Transfer from stage 3 to stage 2	–	7 644	(7 644)	–
– Transfer from stage 2 to stage 1	15 513	(15 513)	–	–
– Transfer from stage 3 to stage 1	176	–	(176)	–
New advances originated	1 226 920	–	–	1 226 920
Collections received including interest adjustment	(901 439)	(131 723)	(31 497)	(1 064 659)
Write-offs	(9 334)	(5 639)	(25 434)	(40 407)
At 31 August 2019	2 548 958	260 231	122 476	2 931 665
At 1 September 2019	2 548 958	260 231	122 476	2 931 665
Transfers				
– Transfer from stage 1 to stage 2	(89 198)	89 198	–	–
– Transfer from stage 1 to stage 3	(41 205)	–	41 205	–
– Transfer from stage 2 to stage 3	–	(54 609)	54 609	–
– Transfer from stage 3 to stage 2	–	4 151	(4 151)	–
– Transfer from stage 2 to stage 1	138 438	(138 438)	–	–
– Transfer from stage 3 to stage 1	5 068	–	(5 068)	–
New advances originated	798 989	–	–	798 989
Collections received and fees raised	(864 139)	(49 847)	(11 154)	(925 140)
Write-offs	(1 161)	(2 054)	(26 701)	(29 916)
At 31 August 2020	**2 495 750**	**108 632**	**171 216**	**2 775 598**

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
Maxi loans				
At 1 September 2018	404 479	7 867	18 318	430 664
Transfers				
– Transfer from stage 1 to stage 2	(10 099)	10 099	–	–
– Transfer from stage 1 to stage 3	(32 304)	–	32 304	–
– Transfer from stage 2 to stage 3	–	(981)	981	–
– Transfer from stage 3 to stage 2	–	1 102	(1 102)	–
–Transfer from stage 2 to stage 1	1 888	(1 888)	–	–
– Transfer from stage 3 to stage 1	1 021	–	(1 021)	–
New advances originated	290 895	–	–	290 895
Collections received including interest adjustment	(145 850)	(3 316)	(11 090)	(160 256)
Write-offs	(17 619)	(1 497)	(8 088)	(27 204)
At 31 August 2019	492 411	11 386	30 302	534 099
At 1 September 2019	492 411	11 386	30 302	534 099
Transfers				
– Transfer from stage 1 to stage 2	(31 902)	31 902	–	–
– Transfer from stage 1 to stage 3	(25 533)	–	25 533	–
– Transfer from stage 2 to stage 3	–	(1 782)	1 782	–
– Transfer from stage 3 to stage 2	–	3 004	(3 004)	–
– Transfer from stage 2 to stage 1	5 384	(5 384)	–	–
– Transfer from stage 3 to stage 1	5 961	–	(5 961)	–
New advances originated	218 553	–	–	218 553
Collections received and fees raised	(166 609)	(4 691)	4 587	(166 713)
Write-offs	(5 433)	(2 816)	(15 180)	(23 429)
At 31 August 2020	**492 832**	**31 619**	**38 059**	**562 510**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
Other unsecured loans				
At 1 September 2018	465 130	10 220	20 805	496 155
Transfers				
– Transfer from stage 1 to stage 2	(12 907)	12 907	–	–
– Transfer from stage 1 to stage 3	(23 645)	–	23 645	–
– Transfer from stage 2 to stage 3	–	(2 085)	2 085	–
– Transfer from stage 3 to stage 2	–	946	(946)	–
– Transfer from stage 2 to stage 1	1 018	(1 018)	–	–
– Transfer from stage 3 to stage 1	1 301	–	(1 301)	–
New advances originated	226 389	–	–	226 389
Collections received including interest adjustment	(137 680)	(5 316)	(8 723)	(151 719)
Write-offs	(9 765)	(2 374)	(8 180)	(20 319)
At 31 August 2019	509 841	13 280	27 385	550 506
At 1 September 2019	509 841	13 280	27 385	550 506
Transfers				
– Transfer from stage 1 to stage 2	(18 707)	18 707	–	–
– Transfer from stage 1 to stage 3	(11 048)	–	11 048	–
– Transfer from stage 2 to stage 3	–	(1 639)	1 639	–
– Transfer from stage 3 to stage 2	–	2 643	(2 643)	–
– Transfer from stage 2 to stage 1	6 661	(6 661)	–	–
– Transfer from stage 3 to stage 1	9 192	–	(9 192)	–
New advances originated	219 092	–	–	219 092
Collections received and fees raised	(197 282)	(5 294)	(2 887)	(205 463)
Write-offs	(2 318)	(1 873)	(7 542)	(11 733)
At 31 August 2020	**515 431**	**19 163**	**17 808**	**552 402**

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
Total				
At 1 September 2018	4 586 047	260 583	154 946	5 001 576
Transfers				
– Transfer from stage 1 to stage 2	(214 590)	214 590	–	–
– Transfer from stage 1 to stage 3	(98 735)	–	98 735	–
– Transfer from stage 2 to stage 3	–	(31 684)	31 684	–
– Transfer from stage 3 to stage 2	–	9 692	(9 692)	–
– Transfer from stage 2 to stage 1	18 419	(18 419)	–	–
– Transfer from stage 3 to stage 1	2 498	–	(2 498)	–
New advances originated	2 077 710	–	–	2 077 710
Collections received including interest adjustment	(1 475 411)	(140 355)	(51 310)	(1 667 076)
Write-offs	(36 781)	(9 510)	(41 702)	(87 993)
At 31 August 2019	4 859 157	284 897	180 163	5 324 217
At 1 September 2019	4 859 157	284 897	180 163	5 324 217
Transfers				
– Transfer from stage 1 to stage 2	(139 807)	139 807	–	–
– Transfer from stage 1 to stage 3	(77 786)	–	77 786	–
– Transfer from stage 2 to stage 3	–	(58 030)	58 030	–
– Transfer from stage 3 to stage 2	–	9 798	(9 798)	–
– Transfer from stage 2 to stage 1	150 483	(150 483)	–	–
– Transfer from stage 3 to stage 1	20 221	–	(20 221)	–
New advances originated	1 545 221	–	–	1 545 221
Collections received and fees raised	(1 543 287)	(59 832)	(9 454)	(1 612 573)
Write-offs	(8 977)	(6 743)	(49 423)	(65 143)
At 31 August 2020	**4 805 225**	**159 414**	**227 083**	**5 191 722**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
GROUP				
Employer groups				
At 1 September 2018	46 258	–	–	46 258
New advances originated	2 756 523	–	–	2 756 523
Collections received including interest adjustment	(2 758 076)	–	–	(2 758 076)
At 31 August 2019	44 705	–	–	44 705
At 1 September 2019	44 705	–	–	44 705
New advances originated	1 677 172	–	–	1 677 172
Collections received and fees raised	(1 674 044)	–	–	(1 674 044)
At 31 August 2020	**47 833**	**–**	–	**47 833**

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

The following tables set out the movement in the impairment loss allowance:

	Opening R'000	Utilised R'000	Provided/ (reversed) R'000	Closing R'000
GROUP AND CO-OPERATIVE				
At 31 August 2019				
Stage 1				
– Pension-backed loans	–	(63)	63	–
– Vehicle loans	31 367	(9 334)	6 490	28 523
– Maxi loans	14 684	(17 619)	13 349	10 414
– Other unsecured loans	11 115	(9 765)	6 192	7 542
	57 166	(36 781)	26 094	46 479
Stage 2				
– Vehicle loans	30 646	(5 639)	10 428	35 435
– Maxi loans	5 423	(1 497)	2 655	6 581
– Other unsecured loans	4 583	(2 374)	3 692	5 901
	40 652	(9 510)	16 775	47 917
Stage 3				
– Vehicle loans	32 506	(25 434)	29 310	36 382
– Maxi loans	14 322	(8 088)	16 315	22 549
– Other unsecured loans	11 354	(8 180)	11 499	14 673
	58 182	(41 702)	57 124	73 604
Total				
– Pension-backed loans	–	(63)	63	–
– Vehicle loans	94 519	(40 407)	46 228	100 340
– Maxi loans	34 429	(27 204)	32 319	39 544
– Other unsecured loans	27 052	(20 319)	21 383	28 116
	156 000	(87 993)	99 993	168 000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Opening R'000	Utilised R'000	Provided/ (reversed) R'000	Closing R'000
At 31 August 2020				
Stage 1				
– Pension-backed loans	–	(65)	65	–
– Vehicle loans	28 523	(1 161)	48 618	75 980
– Maxi loans	10 414	(5 433)	19 678	24 659
– Other unsecured loans	7 542	(2 318)	10 708	15 932
	46 479	(8 977)	79 069	116 571
Stage 2				
– Vehicle loans	35 435	(2 054)	(20 019)	13 362
– Maxi loans	6 581	(2 816)	8 769	12 534
– Other unsecured loans	5 901	(1 873)	(1 527)	2 501
	47 917	(6 743)	(12 777)	28 397
Stage 3				
– Vehicle loans	36 382	(26 701)	58 153	67 834
– Maxi loans	22 549	(15 180)	24 389	31 758
– Other unsecured loans	14 673	(7 542)	1 309	8 440
	73 604	(49 423)	83 851	108 032
Total				
– Pension-backed loans	–	(65)	65	–
– Vehicle loans	100 340	(29 916)	86 752	157 176
– Maxi loans	39 544	(23 429)	52 836	68 951
– Other unsecured loans	28 116	(11 733)	10 490	26 873
	168 000	(65 143)	150 143	253 000

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.9 Offsetting financial assets

The following advances receivable are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amount of recognised financial assets R'000	Gross amounts of recognised financial liabilities set off in the statement of financial position R'000	Net amounts of financial assets presented in the statement of financial position R'000	Related financial instruments not set off in the statement of financial position* R'000	Net amount R'000
GROUP					
As at 31 August 2019					
Pension-backed loans	1 307 947	–	1 307 947	(43 502)	1 264 445
Vehicle loans	2 931 665	–	2 931 665	(61 583)	2 870 082
Maxi loans	534 099	–	534 099	(60 592)	473 507
Other unsecured loans	550 506	–	550 506	(104 852)	445 654
Employer groups	44 705	–	44 705	–	44 705
	5 368 922	**–**	**5 368 922**	**(270 529)**	**5 098 393**
As at 31 August 2020					
Pension-backed loans	**1 301 212**	**–**	**1 301 212**	**(39 003)**	**1 262 209**
Vehicle loans	**2 775 598**	**–**	**2 775 598**	**(65 879)**	**2 709 719**
Maxi loans	**562 510**	**–**	**562 510**	**(66 355)**	**496 155**
Other unsecured loans	**552 402**	**–**	**552 402**	**(90 451)**	**461 951**
Employer groups	**47 833**	**–**	**47 833**	**–**	**47 833**
	5 239 555	**–**	**5 239 555**	**(261 688)**	**4 977 867**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.9 Offsetting financial assets continued

	Gross amount of recognised financial assets R'000	Gross amounts of recognised financial liabilities set off in the statement of financial position R'000	Net amounts of financial assets presented in the statement of financial position R'000	Related financial instruments not set off in the statement of financial position* R'000	Net amount R'000
CO-OPERATIVE					
As at 31 August 2019					
Pension-backed loans	1 307 947	–	1 307 947	(43 502)	1 264 445
Vehicle loans	2 931 665	–	2 931 665	(61 583)	2 870 082
Maxi loans	534 099	–	534 099	(60 592)	473 507
Other unsecured loans	550 506	–	550 506	(104 852)	445 654
	5 324 217	–	5 324 217	(270 529)	5 053 688
As at 31 August 2020					
Pension-backed loans	**1 301 212**	**–**	**1 301 212**	**(39 003)**	**1 262 209**
Vehicle loans	**2 775 598**	**–**	**2 775 598**	**(65 879)**	**2 709 719**
Maxi loans	**562 510**	**–**	**562 510**	**(66 355)**	**496 155**
Other unsecured loans	**552 402**	**–**	**552 402**	**(90 451)**	**461 951**
	5 191 722	**–**	**5 191 722**	**(261 688)**	**4 930 034**

* *Deferred bonus payment appropriations.*

36.2 Market risk

The key components of market risk are price risk and interest rate risk.

Price risk

The risk of a decline in the value of a security or a portfolio.

Interest rate risk

Interest rate risk refers to the risk that the fair value of the future cash flows from a financial instrument will fluctuate as a result of changes in market interest rates.

Market risk governance

The Credit Risk Management Committee is responsible for the Group's market risk management, with the Audit and Risk Committee of the Board of Directors providing oversight for market risks assumed in the Group's statement of financial position on behalf of members.

36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.1 Price risk

Investment securities

The Group has invested in the Hollard Insurance Company Limited cell captive and in nReach One Proprietary Limited. The maximum exposure to price risk at the reporting date is the carrying value of the investments.

The following table below sets out the Group's credit ratings so far as the instrument is rated:

	Global Credit Rating 2020	Global Credit Rating 2019
Hollard Insurance Company Limited	**AA (Mar20)**	AA (Nov19)

Holland Insurance Company Limited is South Africa's largest privately-owned insurance group.

nReach One Proprietary Limited is a venture capital company in terms of section 12J of the Income Tax Act. In order to maintain its 12J status the entity is subject to strict compliance requirements from the South African Revenue Service and the Financial Sector Conduct Authority.

For more details on the above investments refer to note 10.

36.2.2 Interest rate risk

The Group's interest rate risk arises from advances, other non-current receivables and borrowings. This exposes the Group to effects of fluctuations in the prevailing levels of market interest rates, in its statements of financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce in the event that unexpected movements in interest rates occur. These assumptions are based on management's judgement. All the advances are prime linked.

Funding for the administered rate products consists of an appropriate mix of 36,4% (2019: 47%) prime-linked funding, 60,1% (2019: 46%) JIBAR-linked funding and 3,5% (2019: 7%) overnight call funding from three major South African commercial banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.2 Interest rate risk continued

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
The exposure of the Group's advances receivable to an interest rate change of 0,5% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Advances	**25 959**	26 621	**25 959**	26 621
The table is based on advances with a total carrying value of R5 191,7m (2019: R5 324,2m) that excludes balances owed by employer groups of R47,8m (2019: R44,7m) which do not carry interest. This is applicable for the Group and Co-operative.				
The exposure of prime-linked other non-current receivables to an interest rate change of 0,5% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Prime-linked other non-current receivables	**–**	–	**267**	267
The table is based on other non-current receivables with a total value of R53,3m (2019: R53,3m) for the Co-operative.				

36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.2 Interest rate risk continued

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
The exposure of JIBAR-linked other non-current receivables to a 3-month JIBAR rate change of 0,5% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
JIBAR-linked other non-current receivables	**–**	–	**393**	393
The table is based on other non-current receivables with a total value of R78,5m (2019: R78,5m) for the Co-operative.				
The exposure of the cash and cash equivalents to an interest rate change of 0,5% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Cash and cash equivalents	**939**	851	**214**	125
The table is based on cash and cash equivalents of the Group with a total value of R187,8m (2019: R170,2m) and a total value of R42,6m (2019: R25,0m) for the Co-operative.				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.2 Interest rate risk continued

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
The exposure of the borrowings linked to prime rate to a change in the negotiated interest rate of 0,3% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Bank borrowings: prime-linked	**2 960**	4 139	**2 960**	4 139
The table is based on borrowings with a total value of R986,7m (2019: R1 379,8m) for the Group and Co-operative. The Group's long-term borrowings linked to prime rate is partially offset by advances linked to prime.				
The exposure of the borrowings linked to a JIBAR rate to a change in the negotiated interest rate of 0,3% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Bank borrowings: JIBAR-linked	**4 500**	3 450	**4 500**	3 450
The table is based on borrowings with a total value of R1 500,0m (2019: R1 150,0m) for the Group and Co-operative.				

36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.2 Interest rate risk continued

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
The exposure of the Group's notes to a 3-month JIBAR rate change of 0,3% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Borrowings: notes	**462**	1 029	**–**	–
The table is based on notes. with a total value of R153,9m (2019: R342,9m) for the Group. The notes are issued at rates linked to 3-month JIBAR.				
The exposure of the Group's other borrowings to a change in the negotiated interest rate of 0,3% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Borrowings: other	**23**	–	**–**	–
The table is based on borrowings with a total value of R7,8m (2019: R0m) for the Group.				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.3 Liquidity risk

Management is responsible for the establishment and monitoring of lending and funding policies. It ensures that the statement of financial position is flexible enough to adapt to changing economic conditions and that the quality of assets are maintained. Due to the dynamic nature of the underlying business, the Co-operative aims to maintain flexibility in funding by keeping committed credit lines available.

The following table presents the cash flows payable under non-derivative financial liabilities in terms of the remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, which is the manner in which the Group manages its liquidity risk. The table includes all liquid assets and liabilities, which consist of all financial instruments together with investments and insurance contracts.

	0 to 6 months R'000	7 to 12 months R'000	13 to 36 months R'000	Over 36 months R'000
GROUP				
As at 31 August 2019				
Due to banks and note holder	930 808	554 399	1 650 948	–
Due to members	–	–	–	848 335
Cash co-operative rewards to members	18 163	–	–	–
Other liabilities	169 186	4 314	25 461	1 861
Total liquid liabilities	1 118 157	558 713	1 676 409	850 196
Advances receivable	1 028 616	863 633	2 870 118	2 416 321
Investment in insurance contracts	–	–	–	145 963
Investment securities	–	–	–	3 035
Cash and cash equivalents	170 216	–	–	–
Trade and other assets	10 108	–	–	–
Total liquid assets	1 208 940	863 633	2 870 118	2 565 319
Net liquidity position	90 783	304 920	1 193 709	1 715 123
As at 31 August 2020				
Due to banks and note holder	**1 017 113**	**595 386**	**1 151 202**	**–**
Due to members	**–**	**–**	**–**	**863 373**
Cash co-operative rewards to members	**14 344**	**–**	**–**	**–**
Other liabilities	**152 362**	**3 399**	**20 120**	**606**
Total liquid liabilities	**1 183 819**	**598 785**	**1 171 322**	**863 979**
Advances receivable	**989 232**	**812 507**	**2 672 114**	**2 164 068**
Investment in insurance contracts	**–**	**–**	**–**	**155 273**
Investment securities	**–**	**–**	**–**	**2 518**
Cash and cash equivalents	**187 779**	**–**	**–**	**–**
Trade and other assets	**13 485**	**–**	**–**	**–**
Total liquid assets	**1 190 496**	**812 507**	**2 672 114**	**2 321 859**
Net liquidity position	**6 677**	**213 722**	**1 500 792**	**1 457 880**

The Group actively manages its liquidity, based on the liquidity brackets determined by the covenants contained in the common terms agreement. These covenants require a positive net liquidity position in the '0 to 12 month', '13 to 36 month' and 'over 36 months' brackets, which the Group is currently in compliance with.

36. FINANCIAL RISK MANAGEMENT continued

36.3 Liquidity risk continued

	0 to 6 months R'000	7 to 12 months R'000	13 to 36 months R'000	Over 36 months R'000
CO-OPERATIVE				
As at 31 August 2019				
Due to banks	825 011	469 927	1 460 623	–
Due to members	–	–	–	848 335
Cash co-operative rewards to members	18 163	–	–	–
Other liabilities	239 656	99 381	299 116	97 091
Total liquid liabilities	1 082 830	569 308	1 759 739	945 426
Advances receivable	983 911	863 633	2 870 118	2 416 321
Investment in insurance contracts	–	–	–	145 963
Cash and cash equivalents	25 017	–	–	–
Other non-current receivables	–	–	52 474	79 326
Investment securities	–	–	–	2 000
Trade and other assets	107 409	7 638	33 247	7 593
Total liquid assets	1 116 337	871 271	2 955 839	2 651 203
Net liquidity position	33 507	301 963	1 196 100	1 705 777
As at 31 August 2020				
Due to banks	**944 014**	**538 151**	**1 121 332**	**–**
Due to members	**–**	**–**	**–**	**863 373**
Cash co-operative rewards to members	**14 344**	**–**	**–**	**–**
Other liabilities	**189 841**	**68 017**	**183 896**	**26 755**
Total liquid liabilities	**1 148 199**	**606 168**	**1 305 228**	**890 128**
Advances receivable	**941 399**	**812 507**	**2 672 114**	**2 164 068**
Investment in insurance contracts	**–**	**–**	**–**	**155 273**
Cash and cash equivalents	**42 843**	**–**	**–**	**–**
Other non-current receivables	**–**	**–**	**117 259**	**13 848**
Investment securities	**–**	**–**	**–**	**2 000**
Trade and other assets	**110 779**	**5 507**	**15 439**	**638**
Total liquid assets	**1 095 021**	**818 014**	**2 804 812**	**2 335 827**
Net liquidity position	**(53 178)**	**211 846**	**1 499 584**	**1 445 699**

The Co-operative actively manages its liquidity based on the liquidity brackets determined by the covenants contained in the common terms agreement. These covenants require a positive net liquidity position in the '0 to 12 month', '13 to 36 month' and 'over 36 months' brackets, which the Co-operative is currently in compliance with.

Members' fund liability is payable to members in cash or set off against any amount owing to the Co-operative at the date of termination of membership or death. Interest is allocated to members' funds on an annual basis, at a market-related rate.

The member's funds will be repaid to a member on death, liquidation or sequestration of the member, or based on a written request from a member after the member reached the age of 63 years or upon termination of membership. These payments are made subject to certain conditions being met and payments are made provided that the Board of Directors is of the opinion that the Group is in a position financially to do so.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.4 Financial instruments by category

	Debt instruments at amortised cost R'000	Equity instruments designated at FVOCI R'000	Total R'000
Assets as per the statement of financial position			
GROUP			
As at 31 August 2019			
Advances receivable	5 160 564	–	5 160 564
Investment securities	–	3 035	3 035
Cash and cash equivalents	170 216	–	170 216
Trade and other assets excluding pre-payments	8 028	–	8 028
	5 338 808	3 035	5 341 843
As at 31 August 2020			
Advances receivable	**4 947 251**	**–**	**4 947 251**
Investment securities	**–**	**2 518**	**2 518**
Cash and cash equivalents	**187 779**	**–**	**187 779**
Trade and other assets excluding pre-payments	**9 603**	**–**	**9 603**
	5 144 633	**2 518**	**5 147 151**
CO-OPERATIVE			
As at 31 August 2019			
Advances receivable	5 115 859	–	5 115 859
Other non-current receivables	131 800	–	131 800
Investment securities	–	2 000	2 000
Cash and cash equivalents	25 017	–	25 017
Trade and other assets excluding pre-payments	107 409	–	107 409
	5 380 085	2 000	5 382 085
As at 31 August 2020			
Advances receivable	**4 899 418**	**–**	**4 899 418**
Other non-current receivables	**131 800**	**–**	**131 800**
Investment securities	**–**	**2 000**	**2 000**
Cash and cash equivalents	**42 843**	**–**	**42 843**
Trade and other assets excluding pre-payments	**102 507**	**–**	**102 507**
	5 176 568	**2 000**	**5 178 568**

36. FINANCIAL RISK MANAGEMENT continued

36.4 Financial instruments by category continued

	Financial liabilities at amortised cost R'000
Liabilities as per the statement of financial position	
GROUP	
As at 31 August 2019	
Borrowings	2 875 805
Due to members	848 335
Cash co-operative rewards to members	18 163
Trade and other liabilities excluding non-financial liabilities	155 386
	3 897 688
As at 31 August 2020	
Borrowings	**2 651 059**
Due to members	**863 373**
Cash co-operative rewards to members	**14 344**
Trade and other liabilities excluding non-financial liabilities	**146 366**
	3 675 142
CO-OPERATIVE	
As at 31 August 2019	
Borrowings	3 006 828
Due to members	848 335
Cash co-operative rewards to members	18 163
Trade and other liabilities excluding non-financial liabilities	100 438
	3 973 764
As at 31 August 2020	
Borrowings	**2 776 521**
Due to members	**863 373**
Cash co-operative rewards to members	**14 344**
Trade and other liabilities excluding non-financial liabilities	**88 631**
	3 742 869

36.5 Fair value estimation

Valuation processes

The Group's finance department performs the valuations of financial assets and liabilities required for financial reporting purposes. Selecting the most appropriate valuation methods and techniques, in terms of IFRS 13, is an outcome of internal discussion and deliberation. Changes in fair values are analysed at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.5 Fair value estimation continued

Hierarchy of fair value of financial instruments

IFRS 13 defines a hierarchy of valuation techniques, with three levels, for fair value measurements of assets and liabilities. This hierarchy is based on the extent to which the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Group's assessment of the market's perspective. The Group first considers relevant and observable market inputs, where these are available. Unobservable inputs are used in the absence of observable inputs. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1, 2 and 3 during the year.

The tables below summarise the classification of the Group's financial instruments and their fair values, by their IFRS 13 hierarchy.

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation tech-nique R'000
GROUP				
As at 31 August 2019				
Assets				
Advances receivable	Amortised cost	5 160 564	5 239 020	Level 3
Investment securities[1]	Fair value	3 035	3 035	Level 3
Cash and cash equivalents (note 11)[1]	Amortised cost	170 216	170 216	
Trade and other assets excluding pre-payments (1)	Amortised cost	8 028	8 028	
		5 341 843	5 420 299	
Liabilities				
Borrowings (excluding notes)[1]	Amortised cost	2 531 612	2 531 612	
Borrowings: notes[1]	Amortised cost	344 193	344 193	
Due to members[1]	Amortised cost	848 335	848 335	
Cash co-operative rewards to members[1]	Amortised cost	18 163	18 163	
Trade and other liabilities excluding non-financial liabilities[1]	Amortised cost	155 385	155 385	
		3 897 688	3 897 688	

(1)The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms or variable interest rates associated with these instruments. The hierarchy of valuation technique level of these assets and liabilities is level 3.

36. FINANCIAL RISK MANAGEMENT continued

36.5 Fair value estimation continued

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation technique R'000
GROUP				
As at 31 August 2020				
Assets				
Advances receivable	Amortised cost	**4 947 251**	**5 190 812**	**Level 3**
Investment securities[1]	Fair value	**2 518**	**2 518**	**Level 3**
Cash and cash equivalents (note 11)[1]	Amortised cost	**187 779**	**187 779**	
Trade and other assets excluding pre-payments[1]	Amortised cost	**9 603**	**9 603**	
		5 147 151	**5 390 712**	
Liabilities				
Borrowings (excluding notes)[1]	Amortised cost	**2 496 819**	**2 496 819**	
Borrowings: notes[1]	Amortised cost	**154 240**	**154 240**	
Due to members[1]	Amortised cost	**863 373**	**863 373**	
Cash co-operative rewards to members[1]	Amortised cost	**14 344**	**14 344**	
Trade and other liabilities excluding non-financial liabilities[1]	Amortised cost	**146 366**	**146 366**	
		3 675 142	**3 675 142**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.5 Fair value estimation continued

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation techni-que R'000
CO-OPERATIVE				
As at 31 August 2019				
Assets				
Advances receivable	Amortised cost	5 115 859	5 239 020	Level 3
Other non-current receivables – loan to related party (note 9)(1)	Amortised cost	5 300	5 300	
Other non-current receivables – investment in debt instruments (note 9)	Amortised cost	126 500	126 500	
Investment securities(1)	Amortised cost	2 000	2 000	Level 3
Cash and cash equivalents(1)	Amortised cost	25 017	25 017	
Trade and other assets excluding pre-payments (1)	Amortised cost	107 409	107 409	
		5 382 085	5 505 246	
Liabilities				
Borrowings(1)	Amortised cost	3 006 828	3 006 828	
Due to members(1)	Amortised cost	848 335	848 335	
Cash co-operative rewards to members(1)	Amortised cost	18 163	18 163	
Trade and other liabilities excluding non-financial liabilities(1)	Amortised cost	100 438	100 438	
		3 973 764	3 973 764	

(1)The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms or variable interest rates associated with these instruments. The hierarchy of valuation technique level of these assets and liabilities is level 3.

36. FINANCIAL RISK MANAGEMENT continued

36.5 Fair value estimation continued

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation techni-que R'000
CO-OPERATIVE				
As at 31 August 2020				
Assets				
Advances receivable	Amortised cost	**4 899 418**	**5 190 812**	**Level 3**
Other non-current receivables – loan to related party (note 9) (1)	Amortised cost	**5 300**	**5 300**	
Other non-current receivables – investment in debt instruments (note 9) (1)	Amortised cost	**126 500**	**126 500**	
Investment securities (1)	Fair value	**2 000**	**2 000**	**Level 3**
Cash and cash equivalents (note 11) (1)	Amortised cost	**42 843**	**42 843**	
Trade and other assets excluding pre-payments (1)	Amortised cost	**102 507**	**102 507**	
		5 178 568	**5 469 962**	
Liabilities				
Borrowings (1)	Amortised cost	**2 776 521**	**2 776 521**	
Due to members (1)	Amortised cost	**863 373**	**863 373**	
Cash co-operative rewards to members (1)	Amortised cost	**14 344**	**14 344**	
Trade and other liabilities excluding non-financial liabilities (1)	Amortised cost	**88 631**	**88 631**	
		3 742 869	**3 742 869**	

(1)The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms or variable interest rates associated with these instruments. The hierarchy of valuation technique level of these assets and liabilities is level 3.

Fair value calculation methods, inputs and techniques

Advances to members

An income approach was used to value advances to members. The expected present value technique was applied, discounting probability weighted pre-tax cash flows (i.e. expected cash flows which take account of lifetime expected bad debt experience) of the Group. The equity component of the cost of capital was determined using the capital asset pricing method. The market risk premium was based on recent trade history and includes a marketability discount to address the fact that the assets, on a stand-alone basis, are not typically traded over-the-counter or on any formal exchange. The debt component referenced the government R186 as the risk-free rate. Where the fair value calculated approximate the carrying value, the carrying value has been disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.5 Fair value estimation continued

Investment securities

Investment in Hollard Insurance Company Limited cell captive

Fair value is driven through the net asset value of the company invested in. For more detail refer to note 10.

Investment in nReach One Proprietary Limited

This investment provides funding to small- and medium-sized entities over its five-year tenure. These entities don't value their businesses on a regular basis, therefore, the value can only be determined upon the realisation thereof.

36.6 Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns and rewards for members, as well as to maintain an optimal capital structure in order to reduce the cost of capital. When maintaining or adjusting the capital structure, the Group may adjust the amount of rewards paid or allocated to members. Externally exposed capital (borrowings – note 17) is managed according to the various agreements in place.

A cash amount as required by the Financial Sector Conduct Authority is kept in a separate bank deposit account in the Group as restricted cash. Refer to note 11 for details of the Financial Sector Conduct Authority requirement.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt divided by total capital. Net debt (note 28) is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents (excluding restricted cash). Total equity is calculated as 'equity' as shown in the statement of financial position plus 'members' funds' as shown in the statement of financial position. Total capital is calculated as total equity plus net debt.

Debt to equity ratios at 31 August were as follows:

	Group		Co-operative	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Total borrowings (note 17)	**2 651 059**	2 875 805	**2 776 521**	3 006 828
Less: Cash and cash equivalents (excl. restricted cash) (note 11)	**(171 996)**	(154 800)	**(42 843)**	(25 017)
Net debt (note 28)	**2 479 063**	2 721 005	**2 733 678**	2 981 811
Total equity	**2 633 320**	2 559 008	**2 586 976**	2 518 714
Capital and reserves	**1 769 947**	1 710 673	**1 723 603**	1 670 379
Members' funds (note 15)	**863 373**	848 335	**863 373**	848 335
Total capital	**5 112 383**	5 280 013	**5 320 654**	5 500 525
Debt to equity ratio (%)	**48.5**	51.5	**51.4**	54.2

CORPORATE INFORMATION

IEMAS FINANCIAL SERVICES (CO-OPERATIVE) LIMITED

Iemas Financial Services (Co-operative) Limited is a registered credit provider NCRCP 1332 and
Iemas Insurance Brokers (Pty) Ltd is an authorised financial services provider FSP 47563

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Co-operative Secretary

Francois van Dyk

Executive Committee

Maria Feiteira
Managing Executive: Iemas Lend

Jaybalan Goonahsylin
Chief Information Officer

Leonie Louw
Group Manager: Human Resources

Tom O'Connell
Chief Financial Officer

Banie van Vollenhoven
Group Chief Executive Officer

Piet Wolmarans
Managing Director: Iemas Insurance Brokers

Board of directors as at 31 August 2020

Anton Buthelezi * "
Len de Villiers * +
Prudence Lebina * ^
Tom O'Connell (Chief Financial Officer)
Retha Piater * "
Vusi Sampula * "
Dashni Sinivasan *^
Willem van Heerden (Chairman of the Board) * + "
Banie van Vollenhoven (Group Chief Executive Officer)
Quintus Vorster * ^ +

** Independent non-executive*
^ Audit and Risk Committee
+ Information Technology Committee
" Human Resources and Ethics Committee

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